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# ***JPRS Report***

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# **China**

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### **Party Members, Cadres Resign To Enter Private Business**

93CM0156A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 276, 1 Jan 93 pp 52-53

[Article by Cheng Ying (2110 1305): "Party Members and Cadres They All—Thump, Thump—Take the Plunge"]

[Text] Spurred on by market economy, the resignations of cadres and intellectuals from their positions to go into business has turned into an irresistible tide. In some counties, as many as one-third of their cadres have resigned. These cadres who thus "go mundane" [go into private business] still rely on the relations they had built up while in office and use their powers in the operation of their business enterprises. This new form of "official racketeering" has already attracted the attention of the inner circle of the CPC and serves as a warning to them.

As vice chairman of the political consultative council in a small county of Zhejiang Province, Liu Jingcun [2692 4552 1317] had not been a man who had wielded great power, but he still has had a certain impressive retinue when he went on inspection tours in the countryside of his locality. He was actually getting along very nicely, but then when people around him were making profits in the thousands and ten thousands in business, his old woman told him day after day that he was being stupid, so he finally took the daring step: he resigned from his office in the county government and registered with the commerce bureau a rice noodle factory he had taken over. Now he had no more official functions, had no car at his disposal, but had additionally to chase around for money, had to request people to come and fix up his factory building, had to worry about the marketing of his products, but he told everybody: "I have no regrets."

Liu Jingcun is but one in the second wave of those innumerable officials who have resigned and "gone mundane," subsequent to the initiation on the mainland of reform and opening to the outside world.

This phenomenon of abandoning government office and going into private business really appears to us as a total reversal of the century-old Chinese traditional psychology of endeavoring to "climb up the official ladder." The LIAONING RIBAO said: "Resignations from government offices are no more acts by a few or by a few scores of persons, it is now being done by government officials in the thousands and ten thousands; altogether these people form something like an irresistible tide. Some statistics on the mainland show that all of the 47 officials, who had been the first lot of officials to resign, had been to differing degrees quite successful, with the exception of only one who had fallen by the wayside."

### **A New Interpretation of the Common Saying "Coming Out Alive After Having Been Through Deadly Peril"**

The new round of "going mundane" by officialdom on the mainland started with the promulgation by the State

Council in July of 1992 of "Regulations Governing the Shift in the Business Mechanism of Industrial Enterprises Under the System of Ownership by the Whole People." It was not only that officials in the industrial enterprises, but also quite a number of cadres in government agencies felt threatened by the general staff retrenchments expected for after the 14th CPC National Congress, and who then decided, before that would happen to them, to hand in their resignations and "go mundane."

The first to suffer the onslaught of this practice of "going mundane" and transferring to commercial pursuits was Beijing. Following the 14th CPC National Congress, those "going mundane" were not only staff of enterprises and cadres of government agencies, but even high-ranking intellectuals in academic institutions and personnel of central research institutes. Some "went mundane" before even resigning, and some simply changed their profession and went into business. During these last two months, the intellectuals who had resigned and gone into business are numbered in the thousands; in Qinghua University alone almost 300 persons have tendered their resignations.

In Hunan Province, many prefecture and county cadres have turned to work in the economic field, and in many counties the number of cadres reduced to one-third.

A "tide of resignations from government offices" had also risen in Liaoning Province. With the keynote of full approval, the party newspaper of the said province commended cadres for discretely discarding the "black gauze caps" [emblems of officials in Imperial China] and publicized some typical cases of cadres who had "gone mundane."

Some cadres expressed themselves very meaningfully by saying: "For the revolution we had to 'come out alive after having been through deadly peril' for several decades, and it seems we now have again to 'come out alive after having been through deadly peril'" (implying that "coming out" from government employment means gaining a new life line, while having been "through deadly peril" refers to having been on the dead-end road of government service).

Why squat in an office and "delight" in the proverbial "honest conduct in poverty" [of old associated with the life of government officials]?

The increasingly serious situation posed by the second wave—since reform and opening up—of officials quitting office to go into business has indeed attracted the attention of official circles. An internal party publication reported in its November 1992 issue on the reactions from various sectors of the general public and exclaimed in great alarm: "This phenomenon of officials quitting their jobs to go into business must be given even more serious attention than what used to be called 'official racketeering' some years ago. The cadres in party and government organs who are quitting their jobs have countered, fully convinced of the righteousness of their

stand: "We are not more stupid than others"; why should we squat in the office of some government organ and take delight in the proverbial "honest conduct in poverty" of officials?

When cadres quit their official positions in Hunan Province they mainly went into the following categories of businesses: 1) In reliance on their better cultural and educational qualifications, they turned to operating dance halls, video parlors, musical societies, etc. 2) Cadres from united front or political consultative departments utilized connections from their former positions to assist in the operation of enterprises supported by compatriots from Hong Kong and Taiwan. 3) Setting up organizations that rendered remunerated services, such as for the processing of products and for applications of better technologies in agriculture and fishery, etc.

Most of the cadres that quit official positions and turned to operating economic entities did so under the pressure of the then prevailing principles of "utmost retrenchment of staff in government offices, shifts in official functions, intensified urge for more services," etc. Since government agencies reduced their staff, they had to allow those who were found surplus to find other opportunities to earn a living. In Zhuzhou County of Hunan Province, 70 percent of the county cadres have turned to operating enterprises. In Lingling County, 1,600 cadres have severed relations with their units and started economic entities, where their incomes generally exceed the salaries they used to earn when "helping themselves from the big common pot."

In Chengdu, Sichuan Province, 18 persons with doctoral and master degrees set up an "Agency for Cultural Affairs, Ltd.," to specially undertake cultural activities in large enterprises and the development of cultural products; it was quite a sensational event for the general public. While they could somehow manage to hold official positions with half-time attendances in universities and research organs, they brazenly engaged in commercial activities, to the envy of quite a few government cadres.

Many star singers and writers are also, one after the other, "going mundane." Assessments in the press of these personalities of the world of culture with regard to their "going mundane" for pecuniary gain has differed, but the majority seems to have expressed sympathy with the persons engage in cultural pursuits in view of the situation that these people presently find themselves in.

How do internal publications refer to this kind of "going mundane"?

Mainland newspapers and periodicals are widely divided in their assessments of cadres "going mundane." Some denounce it as evil, some praise it as righteous. What, then, is the official attitude of Communist China? From a review of several internal party publications we see that China's basic attitude is one of "wait and see."

The general public in various localities has pointed out the following problems in this movement of cadres into "mundane" occupations:

1) Many relations established while in official positions are being utilized to exercise undue power in business operations, thus reviving a conduct akin to "official racketeering." As the residual power from former positions is hard to eliminate, the effect of such former power makes it much easier to obtain official approvals and allocations of raw materials.

2) Some government organs are transferring surplus staff to economic entities, but by various methods of administrative interferences maintain their control of the business operations, and will ultimately be dumping the products among the rural population.

3) Regular work at the government organs is being crippled. Cadres who transfer to commercial work are frequently the well-experienced and capable ones, persons with many good ideas and full of drive. Those that are left behind to "take care of the shop," i.e. those who had lacked the courage to transfer to commercial work, are then only the old, weak, sick, and disabled.

Faced with this situation, many provincial and municipal government departments do not dare voice opposition against the trend of cadres quitting jobs to go into business, but in fact also find themselves unable to stop the trend. In the end they are adopting the attitude of: "first, waiting; second, watching; and third, wavering." Some people expect the central authorities to come out with a new set of explicit rules.

The BANYUE TAN; NEIBU BAN [SEMIMONTHLY TALK], an internal CPC publication, indicated, when publishing some of the above material, that resignations from public office and transferring to commercial work are acts of "praiseworthy enthusiasm, worthy of protection, and deserving of effective guidance." At the same time it restated some of the disciplinary rules issued by the State Council.

Another publication, which is also not for external circulation, the JINGJI CANKAO [ECONOMIC REFERENCES], expressed itself affirmatively on the subject of cadres transferring to commercial work. It regarded these acts as "beneficial for the downward relegation of powers, for the retrenchment in inflated staff establishments, for the development of tertiary industries," and also admonished that we should not "stop eating for the fear of choking," as the saying is.

### Our Turn To Get Rich

Among those cadres that are now in increasing numbers transferring to commercial work there are of course many who act under pressure of threatening staff retrenchments and organizational reforms. A considerable number of them act out of the idea that in the past



it had been the "individual entrepreneur" stratum that had gotten rich, and that it should now be their, the cadres', turn to get rich.

The ZHENLI DI ZHUIQIU [QUEST FOR TRUTH], a Shanghai monthly, published an article in its October 1992 issue, in which it voiced a very serious concern of the general public about cadres transferring to commercial work, namely the concern that these cadres would exert undue power pressure in the conduct of their business operations. People believe that, regardless of the frequent injunctions by the central authorities, it will always be the case that cadres who resign from government organs and join economic entities will, overtly or covertly, utilize the influence they had built up in their former positions to gain undue benefits. This is bound to lead to the creation of a new powerful class that will employ power pressure in its business operations.

Some people in Shanghai believe that one should not impose too rigid restrictions on cadres turning to commercial work, but that it is necessary to prevent that administrative powers are being abducted by individuals. It should therefore not be permitted that leading cadres who wield substantial power be allowed to engage in any secondary occupations. As soon as they resign their official positions to go into business, they must truly "relinquish contacts." The government organ concerned should rather allow them a "transitional period," retaining the cadre in his position while stopping the payment of his salary.

There is some news that the Central Committee and the State Council are in the process of formulating a special script which will contain specific provisions on such questions as the corporate legal status, industrial policies, service orientation, and scope of business operations in cases of cadres transferring to work in economic entities.

In short, the internal party publications did include the warning: "Official racketeering had once aroused the indignation of the people, so that when cadres now leave to join economic entities, the lessons of the past must not be forgotten."

#### **New Values Needed To Boost Economy in Minority Regions**

93CM0144A Beijing QIUSHI [SEEKING TRUTH]  
in Chinese No 24, 16 Dec 92 pp 25-28

[Article by Nanning, Guangxi Chinese Communist Prefectural Party Secretary Pan Qi (3382 3823): "Minority Region Spiritual Civilization Development Must Rise to a New Level"]

[Text] In Comrade Deng Xiaoping's important talks on his southern tour at the beginning of this year, he asked that from the widespread development of socialism with Chinese characteristics we not only strive to reach a new level of economic development in a few years, but also a

new level of social order, social atmosphere, and spiritual civilization. Only if a good job is done developing the two civilizations, will we have socialism with Chinese characteristics. Comrade Jiang Zemin also clearly pointed out in his 14th National Party Congress report that in persisting in grasping with both hands, both hands must be firm and raise development of the socialist spiritual civilization to a new level. From Guangxi's practice of developing the economy and reform and opening up, it would appear that if the development of the spiritual civilization in minority regions is to reach a new level, even more than with ordinary regions it should be closely centered on economic development and have such important segments as grasping newer ideological concepts and improving the qualifications of minorities and promoting the common enrichment of all nationalities.

#### **Focus Everything on Economic Development: The Fundamental Point of Departure for Developing the Spiritual Civilization of Minority Regions**

In developing the productive forces for society, the physical result of restructuring the objective world is called material civilization and the spiritual result of restructuring the subjective world is called spiritual civilization. An important characteristic of a socialist society is a socialist spiritual civilization guided by Marxism. It is an important sign that distinguishes and shows the superiority of the socialist system over the capitalist system. Socialist spiritual civilization is an important component of the socialist superstructure. Not only does it reflect the needs of the socialist economic and political systems, but it also acts as an enormous impetus to the consolidation and development of economic and political systems and provides the spiritual driving force, the intellectual support, and the ideological guarantee for the development of the socialist material civilization. So, the inherent demands of socialist economic development on the development of the spiritual civilization as well as the guiding ideology and fundamental starting point for the development of socialist spiritual civilization are to focus everything on economic development, to actively promote socialist modernization, and to step up overall reform and broaden the opening to the outside.

China's socialist system is established on a rather low level productive force base. There still is a rather large gap between the present level of economic development and that of the advanced capitalist nations and we must come to grasp that vigorously developing the productive forces of society is a matter of primary importance that overrides everything else. Guangxi is one of the autonomous minority regions and since the 3rd Plenum of the 11th Central Committee, has conscientiously and thoroughly implemented the party's basic line and the national economy has greatly developed, the whole region has been politically stable, the society has been settled, and nationalities have been unified. But because of the restrictions of various subjective and objective factors, Guangxi's economic development has had a

weak base, its pace has been delayed, and its rate has been slow. In comparison with the rest of the country, Guangxi has its deficiencies and it has its advantages. Guangxi is located at three borders. It backs on the Great Southwest, in the south it faces the Gulf of Tonkin, and it is the most convenient sea outlet to Southeast Asia of the southwestern hinterland. The party Central Committee this year clearly proposed that Guangxi be established as the southwestern region's outlet to the sea, thereby placing Guangxi in an important strategic position for the whole country's regional economic development and creating a rare opportunity for Guangxi's economy to jump to a new level. Guangxi's weak economic base and low level productive forces determine that the Guangxi region must center especially strongly on economic development and not let up and wholeheartedly build up the economy and they determine that Guangxi's spiritual civilization must be strongly centered on economic development, serve well, and rise to a new level. To seize this opportunity and cause the minority region's spiritual civilization to rise to a new level, the Guangxi Autonomous Region party and government leadership has conscientiously implemented the party's basic line and the policy of "grasping with both hands" and truly paid attention to developing the spiritual civilization centered on economic development. One important measure in this is conducting general training throughout the region to develop productive forces. Training to develop productive forces demands that the leadership at every level earnestly eliminate "leftist" and rightist ideological restrictions that block the development of productive forces; demands that all departments and all units further clear up policies that are disadvantageous to the development of productive forces; and demands that all party cadres and the broad masses put their minds on one thought and put their efforts on one deed and concentrate their wisdom, their energies, and their thoughts on economic development. By training to develop productive forces, everyone's intelligence, wisdom, and energies will be channeled into realizing great quadrupling, rapidly better off practices coalescing into a powerful spiritual impetus to increase the rate of economic development and forming a high degree of unity in the thinking of the entire party and the entire people, further enhancing the awareness and the steadfastness in implementing of the party's basic line so that various problems that for a number of years have not been in line with developing the productive forces can be resolved rather well bringing about a new situation where the two civilizations are developed together. Practice proves that development of minority region spiritual civilization plays a big part in the main task of developing the economy. So long as development of the minority region spiritual civilization is firmly centered on economic development and we persist in taking the "three advantages" as standards, minority region spiritual civilization will certainly be able to rise to a new level.

#### **Renewal of Ideological Concepts: The Focus and the Key to Developing Minority Region Spiritual Civilization**

People's social activities are governed by ideological concepts. There are two kinds of ideological concepts. Ideological concepts that are bold in change, bold in opening up, and bold in forging ahead give great impetus to the development of the economy of the society. But ideological concepts that adhere to past practices and are closed off secure in the status quo are a great impediment to the development of the economy of the society. The focus and the key to the development of the socialist spiritual civilization is to promote change and renewal in people's ideological concepts to adapt to the rapidly developing demands of the times and become a strong force promoting the development of the economy of the society. There still is a rather large gap between minority region development and that of advanced regions, especially coastal regions. Minority region development still has not achieved the results and the rate that it should. Its huge potential still has not been fully realized. There certainly are objective and historical reasons for this. But what is more important are the subjective reasons, especially backward ideological concepts and serious restrictions on the development of the minority region economy. Without change and renewal in ideological concepts, economic development and vigor become empty phrases.

Directed at the minority region's actual situation and characteristics, renewal of minority region ideological concepts should begin with the following few aspects:

First, we should get rid of the concept of sticking to old ways and establish a spirit of daring to venture and daring to risk and opening up and forging ahead. Sticking to old ways is a common characteristic of old traditional concepts. People whose concepts are outmoded, who scrupulously abide by old teachings, and who stick to conventions have a hard time accepting new things and lack creative impulses and courage and resourcefulness. So, they cannot take on the heavy responsibilities of invigorating the economy. We should encourage a spirit of daring to venture and daring to risk, and to explore and being courageous in experimenting and not fearing risks and not fearing losing. Only if we do this, can we follow a path suitable to minority region development.

Second, we must get rid of the concept of being secure in our poverty and defending our poverty and establish the thinking of daring to get rich first. For a long time, the level of productive forces in the minority region has been low and social development has been retarded. People governed by the traditional concepts of "being content with ordinary happiness," "being content with poverty and rejoicing in the way," and "a little wealth is security," can easily be satisfied with the status quo and only ask to be warm and fed and do not think about daring to get rich. This type of spirit is incompatible with the reform spirit and the demands of the times. We should establish the ideological concept of daring to get rich and should encourage and support those in the minority region who can get rich first to spur on and influence other minority regions on the way to prosperity.

Third, we should get rid of the concept of the natural economy and enhance the awareness of the commodity economy. For a long time, self-sufficient and self-satisfied natural economic production has weakened the awareness of the commodity economy in a considerable portion of the people of the minority region. In developing the socialist commodity economy, this ideological concept has become a major hindrance to development of the minority region economy. So, we must lead the people of the minority region to recognize the importance of developing the socialist commodity economy, to learn the use of value as a standard, and in the circulation of commodities to turn hard work into wealth through legal means.

Fourth, get rid of the egalitarian concept and increase the awareness of socialist competition. For historical reasons, the phenomenon of egalitarianism has been more prominent in minority regions than in other regions. In several places the custom of drinking when they have wine and eating when they have meat is extremely prevalent, so that economic development lacks an inherent motivation and the economies of the minority regions waver at a low level. Only if we overcome egalitarianism and increase the awareness of socialist competition will we be able to increase the vigor of minority region economic development.

Fifth, we must get rid of the concept of isolationism and increase the awareness of opening up. The isolationist concept in minority regions was formed historically. More and more people are coming to the common understanding that isolation inevitably leads to backwardness. We must muster the courage to open up the mountain gate and form omnidirectional open patterns based on local advantages oriented to the whole country and the whole world.

Renewal of ideological concepts is a long-term, complicated, and arduous task. Whether this task is done well or not will directly affect the success or failure of the development of minority region spiritual civilizations. So, changing minority region ideological concepts must, under the guidance of Marxism, liberate thinking and cast aside those narrow and obsolete traditional concepts that reject new things. In the specific tasks, we must pay attention to the following few relationships as regards methodology and proper handling: First, we must properly handle the relationship between continuity and change in the minority culture. We must continue outstanding minority cultures. But this continuity should not be simply continuing as before and leaving intact. While continuing outstanding minority cultures, we must dare to do away with those outmoded conventions and bad habits that do not fit the spirit of the times and hinder minority progress and give the minority culture a new content and establish new customs and new habits. Second, we must correctly handle the relationship between outside cultures and the local minority culture. Every nationality's culture has its strong points and its weak points and must boldly absorb the essence of outside cultures and "take" them for their own use.

Moreover, we should criticize and resist the dregs of outside cultures. Third, we should correctly handle the relationship between concept renewal and religious belief. The religious issue is a widespread phenomenon in the lives of minority societies and has a special place and function. Traditional religious consciousness is productive in a small agricultural economy, but its conservatism and backwardness and the negative effect that it produces on the development of minority region economies is not easy to overlook. On the one hand, we must increase education in socialist ideology and inculcate the socialist and communist outlook on life and values in the broad masses of minority region cadres and people and increase their faith in changing the backward appearance of the minority region. On the other hand, we also must use policy and laws to bring minority religious beliefs in line with modernization and thereby cause the main body of minority religion to cast off the old life and accept new things and conscientiously contribute their own efforts to the minority region's economic development and prosperity.

#### **Fundamental Task of Developing Minority Region Spiritual Civilization Is To Improve the Qualifications of Minorities**

Marxism believes that the ultimate deciding factor in the thriving of the country, the progress of society, and the prosperity of the people are society's productive forces with people as the mainstay. With the specified targets of means of production and labor, the higher the qualification of the nationality the higher the quality of the labor force. On the contrary, the lower the qualifications of the nationality the lower the quality of the labor force. The quality of the labor force is directly related to the volume and the quality of the results of production. So, it restricts the development of the material culture and the spiritual culture under certain social patterns. There were of course several reasons that the Japanese and the West German economies developed so fast after World War II, but a fundamental reason was general improvement in the scientific education of the whole people. Information indicates that at the beginning of this century, science and technology as a factor in the growth of the gross national product (GNP) of several advanced nations made up only 5 percent to 20 percent, in the 1950's and 1960's its share rose to approximately 50 percent, and in the 1980's it reached as high as 60-80 percent. This indicates that science and technology, this first productive force, is influencing economic and social development ever more broadly and deeply. Improving people's scientific education has become a major support to economic development, increased national strength, and prosperity of the people.

Reform and opening up injects new vitality and vigor into minority development and brings a rare opportunity for minority prosperity. At the same time, it makes a higher demand on minority qualifications. Actually it is a test and a challenge for every nationality. For a long time and for historical and practical reasons, there has been a definite



gap between the general qualifications of minority nationalities in minority regions and that of their brother nationalities and it does not meet the needs of reform and opening up and hinders reform and opening up and economic development in minority regions. If we do not improve minority qualifications, it will be difficult to intensify minority region reform and opening up. In the over 40 years since the country has been founded, party committees and governments at all levels in Guangxi have adopted numerous effective measures and put forth a great deal of effort to improve the qualifications of Guangxi's minorities and minority qualifications have obviously improved. But there still are aspects that do not meet the demands of the new trend toward reform and opening up. This is mainly manifested in: their ideological concepts still being rather conservative and outmoded and their theoretical qualifications not being high enough, and their education is rather low and they have not done a very good job of integrating central general and specific policies with the actual situation in Guangxi and they have not made great enough strides in economic development and reform and opening up. So, we must make improvements in minority qualifications a fundamental duty of development of the minority region spiritual civilization.

Improving minority qualifications and education are essential and the most crucial problem is improving society's understanding of minority education and placing education in a prominent position in developmental priorities and establishing strategic thinking that economic development must rely on scientific and technological progress and educational development and truly shifting educational development to rely on science and technology and education. We must attach importance to investment in education, and while persisting in having the state manage education, encourage the state, collectives, and individuals to adopt a multichannel method of raising funds and managing education. We must get a good handle on basic education and popularize compulsory education, pay attention to vocational education, firm up the rate of elementary school enrollment and the rate of school attendance and its universality, and the graduation rate. Fully utilizing higher and secondary professional schools to train minorities and minority region talent, we should persist in carrying out preferential policies, reduce the grades for minority students in minority regions, give direction to recruitment of students, give direction to training, and give direction to allocation. We should continue to do a good job of running minority academies, the cradle for training minority talent and improve the quality of instructors to train even more qualified talent in minority regions.

An extremely important aspect of improving minority qualifications is improving the quality of minority cadres. This is the key to whether the minority economy can flourish or not. Minority cadres are the leaders in minority region economic development and casting off poverty and getting rich. The quality of minority cadres directly affects minority region economic development. Guangxi presently has more

than 900,000 national cadres and more than 300,000 minority cadres, making up 35 percent. This ratio is in fundamental conformity with the party's nationalities policy. In recent years, we have conscientiously stressed building the ranks of minority cadres and generally speaking this contingent of cadres is good. But there also is the prominent problem of a comparatively low level of scientific education. According to statistics, nationally there are 32.06 million cadres and 32 percent have higher professional school education or above and 20 percent have a junior middle school education or below. But among Guangxi cadres, 25.99 percent have a higher professional school education or above, six percentage points below the national figure and 21.66 percent have junior middle school education or below, nearly two percentage points above the national figure. The present situation with the ranks of Guangxi cadres does not meet the requirements for reform and opening up. Improving the educational quality of minority region cadres is an extremely important and urgent task placed before us. So, we must work harder to educate and train minority cadres. We must send minority cadres to various types of schools to pursue advanced studies, and to study the theory of socialism with Chinese characteristics and to study economic management and science and technology. We must persist in practical training and place burdens on minority cadres with a future and put them in key posts or grassroots training to improve their capability to analyze and resolve problems and master contradictions. We must continue to adopt the job-related training method and send minority region cadres to advanced regions for study and training. We should conduct cadre exchanges to broaden their perspectives and enrich their experience and improve their leadership capabilities and leadership skills. Through study and training, we should improve the mentality of minority cadres, increase their self-confidence, and overcome their inferiority complex, and speed up the development of the minority region economy.

#### Lu Dingyi on Criticizing Mao

93CM0155A Hong Kong CHING PAO in Chinese  
No 186, 5 Jan 93 p 47

[Article by Chen Shao-pin (7115 0783 6333): "Lu Dingyi and Others Hold That in Guarding Against 'Leftism' We Must Criticize Mao"]

[Text] At the beginning of November 1992, eight party, government, and military senior statesmen, including Lu Dingyi, Yang Dezhi, Gu Mu, Li Desheng, Chen Pixian, Wang Enmao, Wang Ping, and Sai Futing, jointly addressed a letter to the Central Committee Political Bureau and Deng Xiaoping, Chen Yun, and Peng Zhen, suggesting that when totally carrying out the central task proposed by the 14th National Chinese Communist Party Congress to guard against "leftism," eliminate "leftism," and oppose "leftism," we must first be brave

enough to criticize and correct the ideological system that Mao Zedong had from the founding of the country.

#### Why Is It Worthy of Serious Consideration?

In the letter they ask why the "leftist" ideological trend and line often can take over the market and occupy a leading position in China's political, economic, and social life. Why within the party there is a market for the pernicious influence of "leftism" and extreme leftism to exert their damaging effects. Why within the party there cannot be a systematic and rather thorough criticism of "leftist" ideology and theory. The basic reason is that in the Chinese Communist Party the courage to criticize the system of Mao Zedong Thought from the founding of the country and the serious personal offences of Mao Zedong from the founding of the country is lacking. Only by conducting profound and conscientious public criticism of the system of Mao Zedong Thought from the founding of the country and coming up with objective conclusions can we thoroughly eliminate the "leftist" poison.

#### Guard Against Using the Commemoration to Stir Up the "Leftist" Wind Again

In the letter, they mention that the central leadership of the party must dare to criticize and prevent the party from once again artificially lavishing praises on Mao Zedong Thought and the person of Mao Zedong. Lavishing praises on Mao Zedong Thought and the person of Mao Zedong is a provocation to today's reform and opening up and developing socialism with Chinese characteristics and runs counter to them. It is a mockery to

the billion people in and out of the party who were persecuted and attacked by Mao Zedong's mistaken policies and extreme "leftist" line for building the new China and runs counter to them.

The letter, directed against those who are preparing to conduct a commemoration of the 100th anniversary of Mao Zedong's birth, points out that this is a decision that goes against the desires of the party and the people and provides a propaganda opportunity for stirring up the "leftist" wind in the party again. This move could recall past pains in the minds of the billion people who suffered extreme leftist persecution and thereby seriously affect the people's attraction to the party and the party line.

It has been divulged that the Chinese Communist authorities, in view of quite a few countereffective factors to holding a commemoration of the 100th anniversary of the birth of Mao Zedong and the highly vocal opposition of people in and out of the party, are preparing to tone down the scale.

There also is information that during the 14th National Chinese Communist Party Congress and shortly after, quite a few party, government, and military cadres in office and retired as well as well-known people in academic circles pointed out that now is the time to make a formal evaluation of Mao Zedong Thought and Mao Zedong's person. But can this be done while Deng Xiaoping is alive and in good health?

#### Photo Caption

1. p.47 (top left): Mao Zedong and Jiang Qing

## NATIONAL AFFAIRS, POLICY

### Planning Commission Predicts Economic Trends for 1993

#### Expects 'Fairly' Rapid Growth

93CE0287A Beijing JINGJI RIBAO in Chinese  
14 Jan 93 p 2

[Article: "China's Economy Can Continue To Grow Fairly Rapidly Is State Planning Commission Analysis"]

[Text] According to a State Planning Commission analysis and forecast, China's economy can continue to grow fairly rapidly during 1993, but the macroeconomic environment will tend to become more restricted.

First, market demand. Forecasts call for a continued fairly vigorous demand for domestic investment in 1993. The number of newly started projects will increase during 1993 to become a markedly larger portion of all construction, and the number of carry-over projects will correspondingly increase as well. Rapid economic development will require an acceleration of some construction projects, particularly infrastructure projects, and greater planning of some major projects will also be needed. Implementation of these projects will spur fairly fast economic growth, but a trend toward a tightening of the supply of construction funds is possible. Second, consumption demand is forecast to increase steadily. As the economy grows, the cash income of city and countryside residents will increase correspondingly, bringing about some rise in social commodity purchasing power. However, since the kinds of consumer goods being produced for urban markets do not appeal to changed consumption demand, no new consumer craze that can soak up a large amount of purchasing power has taken shape as yet. Peasant income is also growing relatively slowly, so rural market sales are not likely to expand greatly. Third, international market demand offers quite a few opportunities and potential for an expansion of exports, but the expansion of exports also faces some fairly serious problems. China has fashioned a complete pattern of opening to the outside world; the coastal areas externally oriented economy and three kinds of partially or wholly foreign-owned enterprises have developed rapidly; and a definite market for China's medium and low quality goods has also been developed abroad. All these things have further improved the export situation; however, because of the lackluster revival of the economies of western countries, their imports of large quantities of goods will not increase very greatly. A trend has developed toward the regionalization of the world economy and the formation of economic blocs, and trade protectionism has further intensified. Various complex amorphous factors exist today in international political and economic relations. How much they will affect China's export trade is very difficult to predict.

Next is supply. Since agricultural production has been fairly consistent for the past two years, supplies on hand

of grain, cotton, and edible oil are fairly ample. Unless a major natural disaster occurs, the supply of main agricultural products can meet the fairly rapid growth needs of the entire economy. Second the supply of energy will increase. A substantial amount of coal is on hand at the present time, and output is likely to increase during 1993. The nationwide total installed electric power capacity at the end of 1992, plus the new power generating units that will come on stream during 1993, will produce an estimated 8 percent more electric power than in 1991. Crude oil output can only remain at about the 1992 level. Third is the prospect that output of major processed materials such as steel and non-ferrous metals will continue to grow, but because of the decrease in the amount of storage available, there is less leeway for adjusting supply and demand. Despite consideration of greater use of some foreign resources, increased imports will be limited by both domestic foreign exchange and a rise in international market prices. Fourth, transportation bottlenecks, particularly in railroad transportation, will become pronounced. During 1993, virtually no new railroad lines will go into operation, and tapping the potential of existing lines to sustain fairly rapid economic growth will become more difficult. Because of the insufficient ability to deliver coal from Shanxi, a shortage of coal and electric power will occur in the fairly rapidly growing eastern region of the country.

In view of the foregoing circumstances, economic work during 1993 will require complete estimates and full use of all favorable conditions, facing squarely and overcoming all unfavorable conditions and limiting factors, and correctly formulating a guiding thought, macroeconomic goals, and policies and plans for economic work. It will be necessary to continue to control the overall economy, exerting strict macroregulation and control. It will be necessary to continue to accelerate reform and opening to the outside world to spur economic development. Economic growth will have to continue to be based on the building of an optimum structure and the improvement of economic returns to advance the sustained development of the national economy rapidly and well.

#### The Domestic Market: Continued Prosperity

The macroeconomic environment that the consumer goods market faces in 1993 is full of promise, the main favorable conditions being as follows:

1. Continued maintenance of a fairly high speed of growth in development of the national economy, changes in enterprises operating mechanisms causing enterprises to orient toward markets, accelerating changes in their product lines to provide markets with plentiful and varied industrial consumer goods: During 1992, except for cotton whose output declined because of natural disasters, output of other agricultural products including grain, oil-bearing crops, meat, fruits, and aquatic products either maintained or exceeded the previous year's level. Thus, dependable material supports for market development during 1993.



2. Quickening of the pace of reform and opening to the outside world, the environment for goods procurement improving further. In November 1992, the State Council convened a work conference on the development of tertiary industries nationwide at which it proposed that the focus for development of tertiary industries during 1993 should be on the building and perfection of commodity markets—particularly markets for the means of production—firm attention given to the building of a market system, thereby providing beneficial policy support for the development and perfection of commodity markets.

3. Continued rise in social consumption demand. During 1993, staff member and worker wages may increase more than 10 percent, and peasant income will also continue to increase.

4. Prices will probably remain basically stable, the degree of increase to be controlled at around 6 percent.

On the basis of the foregoing analysis, the overall environment for the development of markets in 1993 is good. Forecasts call for a trend of development throughout the year in which markets will continue to maintain steady prosperity, total social commodity retail sales growing approximately 16 percent over 1992. Growth in cities will be greater than in rural villages, expenditures for material goods maintaining the 1992 pace and expenditures for non-material goods growing faster.

#### Transportation and Communications

Forecasts call for an approximately 50 million ton increase in railroad freight deliveries in 1993 as the national economy continues fairly rapid growth. In particular, the demand for coal will increase further, local shortages becoming more prominent. In coastal areas and in the country's southern provinces and cities, coal will be in fairly short supply. East China, Guangdong and Guangxi, and Hubei and Hunan provinces alone will require an additional 18 million tons of coal for power generation, which will increase pressure on transportation. In addition, the volume of foreign trade deliveries will increase substantially, and the amount of transportation needed for smelted materials and for southwestern crude oil will also increase to a certain extent.

Plans call for a railroad freight volume of 1.56 billion tons for 1993, including 655 million tons for coal deliveries. Cargo handling at the country's main coastal ports is anticipated at 590 million tons, and posts and telecommunications volume will also grow fairly rapidly. The state will take a series of major actions and adopt preferential policies to break the communications and transportation bottlenecks that restrict development of the national economy, ensuring development of the transportation and communications industries. These actions include the following:

1. Speed-up in the building of key projects in an effort to develop production capacity ahead of schedule. During 1993 money, materials, and construction forces will be

concentrated on the completion and coming on stream of various projects including the double tracking of the Datong-Baotou line, double tracking of the Shanghai-Ningbo line, second stage work on the Datong-Qinhuangdao line, electrification of the Sichuan-Guizhou line, construction of the Wuhan airfield, and construction of the Kunming airfield for the earliest possible creation of production capabilities. In addition, the building of a number of key transportation and communication projects must be speeded up to lay the foundation for expanded transportation and communications capacity during the late Eighth Five-Year Plan and the Ninth Five-Year Plan.

2. Use of numerous channels to raise money to assure a steady source of funds for the building of transportation. More must be done to arouse the interest of local governments and enterprises in developing transportation, encouraging them to buy shares for the building of a transportation infrastructure, and urging cargo shippers and material supply units to build special-purpose wharfs and special-purpose railroads.

Greater use of foreign funding channels, encouraging foreign traders to build transportation facilities using their own capital or joint ventures for cooperative production of transportation facilities. Increasing railroad, ship and airplane procurement loans.

3. Tapping technical transformation potential for the active expansion of transportation capacity. The railroad sector is to use large horsepower locomotives, energetically promote heavy freight transportation technology, use double-deck passenger cars on heavy passenger travel sections, and optimize its train run diagrams. The water transportation and highway sector should actively work on diverting some railroad freight to water, and some to highways, refurbish old energy-carrying ships, improve coal loading and unloading berth technology, and expand port storage capacity to do a good job of shipping coal. The civil aviation section is to expand the percentage of its large- and medium-sized aircraft, readjust air routes and numbers of flights, and increase the number of hours aircraft are in use each day to expand transportation capacity.

4. Accelerated reform of communications, transportation, and posts and telecommunications for good macroeconomic regulation and control. Emphasis is to be on reform of the administrative system and transportation prices. Administration is to be further streamlined and authority delegated to expand the decision making authority of communications and transportation enterprises. The government sector must do a good job of effecting overall balance and coordinating services. Priority is to be given to the readjustment of railroad prices, continued efforts made to rationalize comparative railroad, highway, inland waterway, water transportation, and sea transportation prices. Transportation policies are to be studied in an overall way, and construction programs are to be planned in an overall way, official approval given to important projects that serve as a

framework for others for the attainment of a rational pattern and an optimum configuration in the building of transportation. Close attention is to be given to the formulation of special plans to accelerate development of communications, transportation, and posts and telecommunications.

### **Energy Industries: Demand Continues Bullish**

During 1993, development of the national economy will mean that demand for energy will continue bullish, a shortage of supply occurring in some areas. While ensuring basic overall balance when planning energy production, emphasis is to be placed on increasing production in the eastern part of the country in order to reduce the pressure on transportation. Plans call for the production of 1.14 billion tons of coal in 1993, up 3.6 percent from 1992; 900 billion kwh of electricity, up 8.1 percent; and increase in the output of petroleum and natural gas. The building of facilities to produce energy will continue to accelerate. During 1993, state investment in the electric power industry and the coal industry is to increase 48 and 36 percent respectively over 1992 plan. Nationwide, work is to begin on electric power facilities for the production of 17 million kilowatts, and 12 million kilowatts is to come on stream. Work is to begin on facilities to produce 20 million tons of coal and facilities producing 22 million tons are to come on stream. Investment in the petroleum and natural gas industry is also to increase substantially, construction in the eastern part of the country centering in Daqing, Shengli, and Liaohe. Prospecting and development work is to accelerate in the Tarim Basin, Tuha, and the Dzungarian Basin.

During 1993, the energy industry will have to continue to speed up and intensify reform. The coal industry will decontrol coal prices tremendously, and in eastern China, prices of coal that state-controlled mines produce, as well as coal used to generate electricity and for smelting metals will be completely decontrolled. Locally produced state-controlled coal will be sold entirely at market prices. The electric power industry will set up five regional electric power blocs; and continued efforts will be made to guide the pooling of funds to operate electric power plants. In all cases, electric power prices will be set to enable repayment of principle plus interest on loans. The petroleum and natural gas industry will accelerate the change from parity price to high price sales, and it will grant authority to petroleum producing enterprises to see small amounts of their product.

### **Social Endeavors: Acceleration of Integrated Reform**

During 1993, the speed of development and the pace of reform of all social endeavors in China will accelerate further, and the people's standard of living and quality of life will continue to rise.

The state will continue a strategy that gives priority of place to the development of education. It will strive to

make a nine-year system of compulsory education universal, and actively develop secondary vocational and technical education, adult education, and higher education. Plans call for the enrollment of a total of 786,000 students nationwide in regular undergraduate and specialized courses in institutions of higher education during 1993, and the enrollment of 90,000 students in secondary vocational schools. In addition, local governments will have greater decision making authority about enrollments.

More will be done in the building of socialist spiritual civilization to meet the increasing needs of the spiritual and cultural life of the general public. Cultural endeavors, news, movie and video, health, physical education, and travel activities are to be developed further. In 1993, hospital beds in China will total 2.8 million. Public cultural facilities will grow, plans calling for the publication of 65.9 billion books, magazines, and newspapers. Plans call for a respective 75.6 and an 81.5 percent radio broadcast and television population coverage rate.

Planned parenthood policies will continue to be strictly enforced to control births in excess of the plan number. Greater control will be exercised over planned parenthood among the floating population. Population for the year is to be controlled within 1.18 billion, the natural rate of increase held below 13.88 per thousand.

A series of integrated reforms of the labor wage control system is to be instituted in keeping with the needs of economic system reform. Training for and the pace of development of all labor markets is to be accelerated, greater latitude provided entrepreneurial units in how they use personnel, flexible plan control instituted for total wages, and a mechanism for normal growth as well as a self-limiting mechanism built for wage distributions.

The social security system is to be further reformed. Efforts are to be made to increase old age insurance coverage, and reform of the medical insurance system is also to be worked on.

Further development of social endeavors requires full participation of the state, collectives, and individuals, the energies of all quarters of society widely mobilized and aroused. Guided by applicable state policies for accelerating the development of tertiary industries, the different character of all realms of social development are to be differentiated for reform of the administrative mechanism and operating methods, introduction of the market mechanism, decontrol that increases vigor, enhancement of self-development capabilities, and acceleration of progress in industrializing and socializing social socialization endeavors.

### **Raw and Processed Materials Industries: No Big Market Ups and Downs**

During 1993, national economic development will continue to increase the demand for major raw and processed materials, product variety and quality needs rising.

**Iron and Steel.** During 1993, world demand for iron and steel will increase over 1992, but no change will occur in production capacity being greater than demand. International market volume of trading in iron and steel may increase, and processed steel prices may rise moderately while remaining generally stable. In the domestic market, both a steel shortage and structural problems exist at the same time. According to plans for national economic development in 1993, more than 76 million tons of steel will be consumed throughout society. While striving to increase the output of the iron and steel industry in 1993, adjustments must be made in the kinds of steel products produced, continued attention given to increasing the output of kinds of steel in short supply and the kinds for which there is a very great market demand.

**Nonferrous Metals.** Forecasts call for a more than 3 million ton demand for ten different nonferrous metals during 1993. Production capacity and production conditions will permit substantial balance between total supply and demand for nonferrous metals. For individual nonferrous metals, however, because of pronounced problems in the country's smelting capacity and the availability of raw materials, a shortage of copper and aluminum may develop. Supplies of lead and zinc will exceed demand.

**Chemical Fertilizer:** In 1993, China's demand for chemical fertilizer totaled 25.35 million tons. Domestic production capacity permits an output of 21 million tons, the shortfall to be supplied out of storage or through imports.

**Ethylene:** The national requirement for plastics, chemical fibers, and synthetic rubber during 1993 translated into a demand for approximately 3.6 million tons of ethylene. A substantial gap exists between production capacity and demand. The current difficulties in selling petrochemical products stems mostly from too small a variety of products and lack of price competitiveness. Consequently, petrochemical concerns will have to tap production potential during 1993, doing all possible to meet market demand. At the same time, they will have to restructure their product lines, improve product quality, reduce waste, lower costs, and improve market competitiveness.

**The Four Major Kinds of Petroleum Products:** Estimates call for a domestic market demand of 66.5 million tons for the four major petroleum products during 1993. China has plentiful crude oil processing capacity, but it lacks sufficient sources of crude oil. Throughout 1993, China will have to reduce crude oil exports and appropriately increase crude oil imports if it is to satisfy domestic market needs.

**Cement:** As a result of the increased investment in fixed assets, and the accelerated pace of real estate construction during 1993, the cement market will continue to boom. Preliminary estimates call for approximately 300 million tons of cement (including exports) in 1993. Production capacity is substantially able to satisfy total demand. However, since less than 20 percent of the output of large- and medium-sized cement concerns is

high grade and premium quality cement, a shortage of these grades will continue. In addition, because of the unevenness in demand for cement and the distribution of raw materials for making it, local supply and demand problems will continue pronounced.

#### **Science and Technology: Exploration of New Market Mechanism Avenues**

1993 will be a major year for acceleration of the country's economic development in which science and technology shoulders a historical mission in speeding up development and spurring an overall increase in the caliber of the economy. Opportunities must be seized, challenges met, and a policy of "reliance and orientation" pursued for a year-by-year increase in the science and technology content in national economic growth.

Science and technology forces must be marshalled to make breakthroughs in key technologies, and to bring to bear newer key technologies as conditions change. Efforts must be made to translate between 600 and 800 major research accomplishments into production. Close attention is to be given to the building of a national project research center, and work is to be continued to spread all scientific and technical achievements that have been made. At the same time, continued efforts will be made to improve and develop technology markets and to develop trade in technology.

More must be done in the way of building spark technology-intensive areas, the training of personnel, and international exchanges in a major effort to invigorate the rural economy.

In addition to keeping up with international advanced technologies, national high technology planning should also include pioneering of key fields. National high and new technology development zones should promote further reform of the property rights, distribution, and social security mechanisms, permitting some scientific and technical personnel to become rich first to serve as models for system reform. The industrialization of high technology must also be linked to urban planning and development of tertiary industries.

Close attention must also continue to be given to capital construction for scientific research, use made of World Bank loans for the building of key national laboratories as well as large- and medium-sized new materials bases, scientific data bank information systems, and Chinese ecological network systems engineering. Climb [pandeng 2372 4098] plans will also institute technical science project and ten major engineering project certifications as a means of tying basic research closely to the actual needs of China's economic and social development at the same time that it is pursuing the leading edge of world technology.

The use of market mechanism and financial methods is to be explored as a new avenue for relying on business to

support the translation of scientific and technical achievements into production for fundamental solution to the problem of motivating and pressuring the use of new technology. The scientific research apparatus is to be restructured, talent channeled into different endeavors, the appropriations system reformed, impetus given to linking production to study and research, the purchase of shares in technology, technology partnerships and share system science and technology enterprises developed. Impetus is to be given to changing science and technology from "going round and round in a closed system" to "becoming externally involved," and efforts made to solve the problem of the separation of science and technology from the economy in a step-by-step fundamental straightening out of the science and technology operating mechanism and the mechanism for transforming scientific and technical discoveries into production.

#### **Machinery and Electrical Equipment Industry: Continued Maintenance of High Speed**

During 1993, the machinery and electrical equipment industry will enjoy many conditions favorable to its development. First, a between 8 and 9 percent growth of the national economy during the 1990's will provide a vast market for the machinery and electrical equipment industry, the machinery and electrical equipment, which is an industrial mainstay, becoming a key area of development. Second, if China's status as a GATT signatory nation is restored, the machinery and electrical equipment industry will have to improve quality, raise standards, and improve competitiveness. This will provide a turning point for the development of the machinery and electrical equipment industry, pressure becoming motivation. Third is an increase in the scale of investment in fixed assets, which will provide a market environment in which the demand for the machinery and electrical machinery industry booms. There will be a great demand for digitally controlled and special purpose machine tools, printing machinery, shop machinery, power generating equipment, motor vehicles and investment-type electronic products such as programmable telephone exchanges and portable communications equipment. Fourth is the changes in the enterprise operating mechanism, particularly the orientation toward the marketplace of large- and medium-sized states-owned enterprises, a change in government functions, and the development and gradual perfection of markets all of which will help development of the machinery and electrical equipment industry. Fifth, as the authority of enterprises to make their own foreign trade decisions expands, and as policies are put in place that encourage exports, impetus will be given to machinery and electric equipment structural reorganization and product improvements. However, it is also necessary to realize that external conditions for machinery and electrical equipment industry production offer no cause for optimism. The demand for scarce transportation is becoming more and more acute. In a situation of further cutbacks in command-style plans for steel and nonferrous metals, as a major consumer of such raw and

processed materials, the machinery and electrical equipment industry faces a raw and processed materials market that has not yet developed completely in which varieties, specifications, and quantities do not meet requirements. In addition, prices of raw and processed materials have risen, and energy supplies are tight, all of which occasion production difficulties for enterprises.

During 1993, the machinery and electrical equipment industry will continue fairly high speed growth. Speed of growth of the electronics and motor vehicle industries, in particular, will be higher. However, there are some flies in the ointment. Examples include insufficient production of power generating equipment to meet the needs of electric power plant construction; a rapid increase in machine tool industry demand resulting in shortages of everything from digitally controlled machine tools to ordinary machine tools; and the appearance of demand that is greater than the supply of shop machines. In the farm machinery market, demand for four-wheeled tractor is fairly steady. For large- and medium-sized tractors, demand has increased sharply, particularly for the East Is Red Model 75, Shanghai Model 50, and Iron Ox Model 55. Production and sales of large harvesting combines, particularly the Siping harvesting combine that is produced using imported technology, and Guilin's rotary hitch harvester combine have risen tremendously. For some name brand diesel engines and farm machine tools, supply will not meet demand. Thanks to the continued high speed growth of the national economy, the increase in investment in fixed assets, demand from key national projects, city taxi tourism, rapid development of township and town enterprises and three kinds of partially or wholly foreign-owned enterprises, and the ever-increasing replacement of motor vehicles, the motor vehicle market will continue substantial growth during 1993, but the market supply of name brand vehicles such as East Wind and Liberation will continue unable to meet demand, and demand for passenger cars will remain substantially at the level of 1992 although demand for product quality has further increased. The microcomputer market will continue to grow in 1993, forecasts calling for a market of about 200,000 units for the whole year. Since China's microcomputer industry is still not well developed, scale is small, costs are large, and prices are high, for many years to come all kinds of imports will enjoy a substantial market in China. Production and consumption of color television sets for the year will continue even. Approximately somewhat more than 2 million video recorders will be required during the year, but a substantial part of the market is held by imports of various kinds.

#### **Use of Foreign Capital: Unabated Trend Toward Increase**

During 1993, China's need for foreign capital for reform and opening to the outside world as well as for economic construction will increase further. Both the total amount of foreign capital used and the areas in which it is used will widen further. The assimilation of foreign trader investment will also continue at a fairly good pace.



Acting in the spirit of the Fourteenth Party Congress and the All-China Planning Conference, China will continue to improve the investment climate during 1993 for active and effective use of foreign capital. This will require a good job in the following regards:

First, striving to continue to maintain a good momentum in the use of foreign capital during 1993, insofar as digestion and assimilation capabilities and matching funds permit, in accordance with plans for accelerating reform and opening to the outside world to spur economic development. This will include efforts to use more foreign capital than in 1992, and efforts to maintain the relatively high level attained in 1992 in the assimilation of foreign trader direct investment.

Second is active channeling of foreign capital mostly toward infrastructure, basic industries, and the technological transformation of business enterprises in accordance with industrial policy, investing it in capital- and technology-intensive industries, with moderate investment in the finance and banking, business, tourism, and real estate fields.

Third is further support for the country's complete decontrol and development of the domestic economy. While giving greater support to coastal areas and making better use of foreign capital, we will guide foreign traders toward investing more in promising inland industries. International financial organization and foreign government concessionary loans are also to be used more in inland provinces and autonomous regions to support development of the inland China economy.

Fourth is better macroeconomic regulation and control, and management of the use of foreign capital to promote a gradual rise in returns from the use of foreign capital, further delegation of examination and approval authority for the use of foreign capital, improvement of methods for managing the use of foreign capital, improving direction and providing services for the use of foreign capital by all local governments, departments and enterprises, while simultaneously doing a good job of forecasting and monitoring foreign debt in a continuing effort to hold the country's foreign debt within reasonable bounds.

#### **Tertiary Industries: In Need of Stimulation To Improve**

During 1993, China will emphasize the fostering of the market system, the development of transportation and communications, and preparing good policies that guide as well as clarify the way in which tertiary industries operate throughout the country. These things will create a fine basis and external environment for the development of tertiary industries.

The state will move ahead further with the building of a market economy system. It will give close attention to planning regarding important means of production and means of consumption markets such as those for nonferrous materials, processed steel, grain, coal, and cotton. It will emphasize the building and perfection of national

level wholesale markets and exchanges, and doing a good job of building associated communications, storage, information, and rules and regulations. It will give guidance to and improve regional wholesale markets. It will gradually establish agricultural by-products wholesale markets for edible oil, meat, and sugar, which have a close bearing on the people's livelihood. In addition, it will actively and steadfastly develop financial markets, technology markets, information markets, labor markets, and real estate markets.

The state will further tilt investment toward the construction of transportation and communications facilities, moderately increasing investment in them. It will use various means to gradually increase the amount of funds available for the building of transportation facilities such as railroads. It will increase the issuance of construction bonds to take in funds available in society for investment. It will further develop airplane, ship, telecommunications and leasing businesses. It will vigorously advocate joint ventures by the central government, local governments, and other domestic and foreign investors in the building of transportation and communications facilities, and it will actively promote share system pilot projects for transportation enterprises. It will devote close attention to the building of key projects for possible earlier fashioning of production capabilities.

Policy guidance is the centerpiece in promoting the development of tertiary industries. All units concerned will coordinate among themselves further, doing all possible to bring concrete policies to fruition for the development of tertiary industries, one giving rise to another, some of them beginning trial operation first and being improved later.

During 1993, a complete census of tertiary industries nationwide will be conducted to gain an understanding of their circumstances as a basis for the formulation of further tertiary industry development plans and policies.

#### **Light and Textile Industries: Market Relatively Stable**

Development of light and textile industries will face both favorable conditions and limiting factors during 1993 as follows:

1. The intensification of reform will impel light and textile entries further in the direction of the market. With the implementation of *Regulations on Changes in the Operating Mechanism of Industrial Enterprises Under Ownership of the Whole People*, the further cutbacks in state plan, and the complete decontrol of product prices will provide light and textile enterprises with greater decision-making authority. In addition, enterprises will also face the test of the marketplace.

2. Consumer goods markets in both cities and the countryside will continue steady growth. Forecasts call for an approximate 15.7 percent increase in total social commodity retail sales in 1993, steady growth in city and countryside purchasing power, and a rapid rally of rural markets. City market sales will increase more than rural

market sales, but no boom in sales will occur. With the commercialization of housing and the development of financial markets, urban purchasing power will be channeled in many directions, the percentage used for the purchase of food, clothing, and living expenses gradually decreasing. However, the absolute amount of purchasing power will continue to grow steadily. Nevertheless, a new concentrated consumption craze capable of soaking up large amounts of purchasing power is not in the offing; only some scattered consumption crazes are likely to appear.

3. New changes will occur in the light and textile products export picture. If China revives its position as a GATT signatory nation, this will help spur reorganization and transformation of the light and textile industry, which will accelerate its integration into the international economy. However, in the near term, the removal of restrictions on imports will mean that some light and textile industries will have to face a pounding from international competition. Forecasts call for a gradual revival of the economies of major capitalist nations during 1993 with low speed growth of the world economy. This provides a certain opportunity for the expansion of China's light and textile industry products. At the same time, however, some disadvantageous factors also exist: First is an increase in trade difficulties with independent collective entities and with eastern European nations. Second is competition with China in export markets from the primary products of surrounding countries. Third is the regionalization and the formation of blocs in international trade, which makes competition more intense.

4. Supplies of raw and processed materials are fairly ample. First of all, production of agricultural raw materials is stable. Unless there is a major natural disaster, fairly good harvests of cotton, sugar crops, tobacco, and silkworm cocoons will continue to be harvested. Second, as metallurgy and petrochemical industries develop, industrial raw materials will increase, and international market sources of supply are ample. An unfavorable situation is further decrease in the amount of raw materials that state plan distributes at parity price. The amounts of petrochemical products and processed steel distributed by plan will decrease tremendously. Imports of wood pulp and alkylbenzene will eliminate central government financial subsidies.

### Outlook for Agriculture in 1993

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10 Jan 93 p 3

[Article: "State Planning Commission Analyzes Outlook for Rural Economy. Economic Situation Fairly Good in 1992, but Some Elements of Instability Exist. Maintenance of Growth in 1993 Requires Continued Intensification of Rural Reform"]

[Text] Xinhuashe, Beijing 9 January The condition of the rural economy that the Rural Economy Department of

the State Planning Commission presents shows the following: The rural economy was fairly good in 1992 as shown in the following several regards: The rural economy was invigorated further, rural secondary and tertiary industries developing rapidly to become the main agent supporting the fairly rapid development of the rural economy. The pace of readjustment of the agricultural product mix and the industrial structure of the rural economy increased, high yield, premium quality, and high return agriculture seeing new development. The use, popularization, and spread of new technology and new research achievements markedly increased. Externally oriented agriculture scored new breakthroughs, growth of foreign exchange-earning exports increasing. Rural economic returns began to improve bringing an increase in peasant income.

Some latent elements of instability also exist in the operation of the rural economy today. The continued "difficulty selling" some agricultural products has yet to be fundamentally eased, and the issuance of IOU's in the procurement of agricultural products is fairly universal. Prices of agricultural means of production have risen fairly rapidly, while grain prices have fallen in some areas. In rural villages, arbitrary fund raising and arbitrary assessments are fairly flagrant. The peasants bear fairly heavy burdens, and their real income increases only slowly. As a result of the construction of various kinds of development zones that require takeovers of large amounts of cultivated land, in some areas the grain growing area has fallen excessively. Experts predict that weather conditions in 1993 will be the kind that produce an ordinary harvest. On the basis of the present rural economic situation and the environment for development, forecasts call for the maintenance of fairly rapid development of both agriculture and the rural economy in 1993. During 1993, the external environment for the development of agriculture will improve further, the amount invested in agricultural production increasing, supplies of the means of production largely satisfying demand, and the development of agriculture maintaining a certain speed of growth. Nevertheless, fulfillment of production quotas will be an extremely arduous task, as always. Forecasts based on preliminary analysis shows a balance will be maintained between supply and demand for principal agricultural products in 1993. They will largely meet needs for fairly rapid growth of the national economy. Changes in crop patterns that reduced the grain growing area may cause fluctuations in output during 1993. Outputs of cotton and oil-bearing crops will climb again to the point where they may be able to satisfy market demand. Sugar and tobacco production prospects remain good, supply and demand for sugar being about equal to demand, and the supply of tobacco being greater than demand. Market demand potential for meat and aquatic products is large, so production will continue to grow fairly rapidly. The development of township and town enterprises, including rural tertiary industries, continues strong. This is particularly true for tertiary industries, which will maintain a fairly high development speed. Income from



nonagricultural industries will be the main source of continued increase in peasant earnings.

During 1993, both agricultural and rural economic work will have to meet requirements for the development of a socialist market economy system. Acting in the spirit of the State Council Agricultural work television and telephone conference the intensification of rural reform will continue, close attention being given to reform of agricultural product prices and the rural commodity circulation system. Efforts will be made to develop various kinds of socialized service systems for agriculture. Agricultural production and the rural economic and industrial structure will continue to be readjusted and optimized, inputs increased to build and improve the multi-level reserve system for major farm products and the risk fund system. The peasants economic rights and interests and legal rights and interests are to be conscientiously protected. Campaigns to develop scientific education to make agriculture prosper are to be continued, and unflagging attention is to be given to agriculture and the rural economy. Major efforts are to be devoted to the development of high yield, premium quality, high return agriculture in accordance with the concept of big agriculture and full development of the rural economy. While ensuring steady rise in grain and cotton yields, efforts are also to be made to develop various kinds of cash crops, to develop forestry, animal husbandry, sideline occupations, and the fishing industry by suiting general methods to specific situations, and to continue energetic development of township and town enterprises, particularly to rural tertiary industries that provide agriculture with pre-production, during production, and post-production services.

## FINANCE, BANKING

### Market Economy Needs Credit Market

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21 Dec 92 p 3

[Article by Yu Tianyi (0205 1131 0001): "A Market Economy Needs a Credit Market"]

[Text] The essence of building a market economy lies in the need to apply market mechanisms to accomplish distribution of resources. In the movement of a market economy, when one compares the principal-subordinate relationship of funds and materials in a market economy with that of the former planned economy era, one sees that there have been fundamental changes. During the period of a planned economy, resource distribution was decided primarily by the plan for physical goods, while the distribution of funds was merely a means to carry out the plan for physical goods; "money follows goods" became the basic operating procedure in the overall plan. While there has been some change in the attitude that "money follows goods" since reform and opening to the outside, there still has not been a fundamental change.

The reason is that the plan for physical goods still plays a leadership role, and this is especially so in the area of fixed assets investment.

After the socialist market economy has been established, there will be a fundamental change in the attitude that "money follows goods." This is because in a market economy, "make market activities adhere to the demands of value patterns, appropriate to changes in the supply and demand relationship, and through the functions of price levers and competition mechanisms, bring resource distribution into the benefits loop, ...by use of the market we can be sensitive to advantages by its reflection of a variety of economic signals, furthering prompt coordination of production and demand." (See Jiang Zemin's report to the 14th National Congress of the Party.) This kind of market economy operating mechanism determines that the plan for physical goods cannot play a full leading role in resource distribution; the process of applying that "money follows goods" will also lose its basic premise, while changes in the supply and demand relationship will induce people to invest. Money will become expanded investment, and the primary motivator in changing the course of investment. "Money follows goods" will become "goods follow money." Whether the quantity and direction of investment is sensible will be decisive in economic development.

The goal of investment is to derive benefits; and the gaining of these benefits cannot be separated from choice and competition. This is without exception, either for the investor or the supplier of funds. In order to derive the greatest gain, there exists between the investor and the fund supplier a mutual interest in seeking choices. The investor hopes he can choose either a financial institution which will meet his loan objectives in sufficient quantity, within the time limits he needs, at reasonable interest rates, and with quality service; either this or the ability to adopt a reasonable fund-raising method. The supplier of funds, meanwhile, hopes he can select for his own loan or investment objectives a well-managed enterprise with good credit, with bright prospects for product sales and a high rate of profits. So competition and choice are like twin brothers: mutual competition must be accompanied by choice. Outstanding fund suppliers and superior loan targets can only be obtained through competition. This is a necessary display of market mechanisms coming into full play, as well as an essential method for the market mechanisms to further production and provide the required timely coordination.

Choice and competition both require the market; they cannot exist without it. To raise the benefits from credit funds, there should be maximum use of credit activities as a tool for economic adjustment in the market economy. Resolving the problem of developing a credit market, and bringing credit business into the market as soon as possible, are matters of the highest priority for

building and developing a socialist market economy. However, a large gap exists between this and the present financial environment.

To go from a condition of overall specialized monopoly to one of "one specialty, with appropriate overlapping" can be considered a kind of progress. But the formula of "appropriate overlapping, with reasonable competition" actually restricts the fullest development of choice and competition, due to the imprecise definitions of "appropriate" and "reasonable," combined with the limits imposed by "one specialty." Because of this situation, for many comrades in China's financial community, mention of financial markets often brings to mind only such things as the markets for negotiable securities, inter-institutional lending, and foreign exchange regulation. It does not call to mind the concept of a credit market (or "lending market"). Or, it only brings to mind the concept of a market for direct, blended investments, and not that of indirect. The relationship of specialty banks to enterprises is still that of a supplier of funds, the bank acting as the enterprises' "mother-in-law," and not as a manager of currency as a commodity. Enterprises cannot choose their banks, and banks cannot choose enterprises.

Without a credit market, there can be no choice and competition. For an enterprise, this means that it can only have a savings and loan relationship with a bank. In this very difficult situation of having to obtain permission to issue stocks and bonds, for the great majority of enterprises, its true significance is that they are left "hanging from a tree" as far as accumulating funds is concerned. This is to say, at a time when enterprises are being pushed into the market, for the great majority of these enterprises there is waiting for them absolutely no market in the financial sense. Because the destiny of these enterprises will lie to a great degree in opening bank accounts anyway, therefore, they cannot disregard this account activity to any degree. Not only is this state of affairs of no benefit to improving the quality of banking service, it seriously affects any change in enterprise management mechanisms.

For banks, the problems created by the lack of a credit market are even more prominent. Monopoly does nothing to improve the quality of service. Still more seriously, it creates for specialty banks a fiscal structure that is difficult to improve, and the quality of credit capital declines continuously. In the absence of a credit market, the various specialized labor divisions in the banking industry's current setup are all linked together. Because of this specialized division of labor, banks lose the right to choose enterprises. Another aspect of "monopoly management" is "dividing up the work, with each taking a part." Enterprises in some departments, no matter whether good or bad, must go to specified banks whenever they need funds; administrative intervention in the credit business can also stipulate a certain bank on the basis of division of labor. This creates a considerable amount of rigidity in the specified bank for dealing with the loan business of one or more departments, and also

makes it difficult to reject the abnormal credit business of "stable group loans." Because there is a natural evolution of "group management" into "group protection," the resulting losses in credit funds become more serious every day.

The absence of a credit market also brings with it a passivity in the Central Bank's macroscopic regulation. This passivity comes in part from the rigidity in the specialty banks' credit business, and in part from enterprises' lack of any variety to choose from in a monopoly market and monopoly format.

The main reason for the lack of a credit market is the organizational structure of specialty banks.

Many banks are organized in accordance with the specialized distribution of labor format. One advantage of this system is that it makes it easier to implement state policies, but in practice it has shown some shortcomings:

1. It has made establishment of a credit market extremely difficult. In a division of spheres of business among departments, credit activity really serves to carry out a departmental monopoly. Although the principle of "one specialty, with appropriate overlapping" has been proposed, still, when one specialty bank enters the legal business sphere of another, it is in the end difficult to avoid the resentment that comes from "infringement."
2. The specialized distribution of labor structure means that specialized banks cannot choose enterprises, and enterprises cannot choose banks. This leaves the enterprises staring into an abyss as far as a credit market is concerned, and for most of these enterprises amassing funds from the many parts of the market is simply unattainable. Another aspect of this is that it renders the specialty banks incapable of standing up to administrative meddling from various levels of government, and leads to a continual decline in the quality of credit capital.
3. Because of the specialized distribution of labor, competition in many cases seems to become just so many examples of overreaching. Another result of the inability to open up normal competition is that enterprises must be docile and obedient to the banks where they have their accounts, doing as they are told. Therefore, a small number are obtaining loans by private means.
4. The specialized distribution of labor makes it hard for specialized banks to maintain a fund equilibrium, and makes them passive where macroscopic regulation is concerned. This is because specialized division of labor causes the enterprises under a department or a class of similar departments to cluster together in their banking account relationships. In addition, similar enterprises have seasonal funding surpluses and deficiencies, which is to say, the seasonal funding needs of similar enterprises display similar trends. This causes some specialty banks to show noticeable seasonal funding imbalances. This appears most prominently in agricultural banks, but banks with other specialties cannot avoid it completely.

Because seasonal funding needs have rigid characteristics, specialty banks find it difficult to evade funding imbalances on their own. Moreover, the specialized distribution of labor structure makes it difficult for specialty banks to provide same-business accounts by means of selecting similar enterprises from across several categories. In order to cut down the hardships that come from these seasonal funding imbalances (Note: In the offseason for funding needs, specialty banks cannot sit by and watch their funds go idle. Therefore, they will often stimulate the flow of funds via loans or other payout methods. Money paid out in this way is often difficult to get back readily when the seasonal need arises. This is the phenomenon called "the soft squeezes the hard"), they can only resolve the seasonal insufficiency of funds by placing their hope in the Central Bank's expansion of the money supply. Caught between these two difficulties, the Central Bank is often forced into such expansion.

5. Specialization also results in lopsided development of enterprises in the same industry. Due to the trilevel management of specialty banks, a level will manage item-by-item, with higher levels exerting extreme pressure on the loan activities of lower levels, often putting serious restrictions on loans outside of the system. These restrictions can extend even to forbidding such loans, and therefore causing massive problems for various specialty banks in the same city within a short time span. A closed system of specialty banks can produce mushrooming problems, and create very serious problems which cut across systems throughout the lending market.

Therefore, if we are to develop a credit market, we must first change the specialty bank system, converting these banks into commercial banks. Building on a foundation of the original specialty banks, steadily implement comprehensive management. On a foundation of strengthening self-restraint, implement competition. Through competition, implement bank selection of enterprises, and enterprise selection of banks. Promote the prospects for a million enterprises through a credit market that permits gathering funds via many channels. This will further the transformation of enterprise management structure, and smooth the way for enterprises to enter the market.

If specialty banks are to be converted to commercial banks, two outstanding problems need be resolved:

1. There needs to be a resolution of the question of whether programmatic payments and commercial payments (sometimes called managerial payments) should be handled by different methods. In China, the programmatic payments business will follow the development of the market economy and steadily decrease, although it would be impossible to eliminate it entirely. As for blending the management of programmatic payments and commercial payments, practice has shown that this seriously affects the process of specialty banks becoming entrepreneurial. When we speak of bringing the credit business into the market, we mean the commercial deposit business. We cannot formulate a true

credit market unless differing management methods are implemented for programmatic payments and for commercial payments.

2. Fiscal macroeconomic regulation must have administrative methods at its center, and direct regulation at the center must be changed to indirect regulation at its center. It is common knowledge that the current methods for controlling the scale of credit are a way of direct regulation through the adoption of administrative methods. However, looked at from the practical realities of China's economic development, it will be hard to carry out indirect regulation through the direct application of the "three magic weapons" commonly used by Western nations. The methods used to control the scale of credit will influence both the establishment and development of a market economy, so if the "three magic weapons" are difficult to implement effectively, how can we properly handle this contradiction? The only way out is to adopt an appropriate transition method. This method is: the Central Bank, through its control of basic funds for payment (that is, the funds which the Central Bank supplies to specialty banks and other financial organizations), controls the amount of the money supply, and the Central Bank's fundamental currency for payments is used basically in the programmatic payment business. Besides the fundamental currency payments which the Central Bank supplies to specialty banks for use in their programmatic payment business, the various banks' commercial business is without exception carried out in a self-imposed equilibrium. The various banks can, through competition, derive an increased volume in the money supply from fundamental currency payments, attract various kinds of deposits, and later use these for commercial payments and in part for their programmatic payment businesses. While banks can obtain short term mixed funds from the Central Bank through the use of repeated discounts, the Central Bank cannot in principle repeat its fundamental currency payments to the banks for commercial payment business.

Adopting the above regulatory methods, because of the pressures from expansion of the scale of credit from what was originally needed—these pressures are concentrated on the People's Bank's general banks, often making it difficult for the general banks to withstand the blows—change from the balanced needs which various levels of banks themselves require, and therefore can change from the pressure of needed credit which is originally concentrated in the Central Bank's general banks, putting financial macroeconomic regulation in an initiative situation. Microscopic management can be carried out from this, and a credit market can then be activated.

If the above regulatory method is to be adopted, the main issue that must be attended to is that forecasts of changes in the currency multiplier must be as accurate as possible. Under conditions of management of scale, there are restraints placed on the currency multiplier in

which the basic currency payments convert to the currency supply. Once the control of scale has been eliminated, the currency multiplier must show a tendency to expansion. If there can be no accurate forecasts of the degree to which the currency multiplier expands, there is a danger that the currency supply will get out of control. But if we just treat the matter seriously, there will be good results, without creating runaway situation in the long run.

At the same time that we are adopting this regulatory method, and getting credit business into the market, there is one other problem we must not overlook: management at various levels must strengthen their powers of self-restraint. Competition under "big iron pot" conditions cannot be rational competition, and competition without self-restraint would be injurious and of no benefit.

[Boxed item: Introduction to the author. Yu Tianyi is a noted financial expert and professor. Formerly Deputy Director of the Chinese Institute of Finance, and currently: Executive Director and Deputy Secretary of the Chinese Financial Association; Member of the Chinese Academy of Finance; Deputy Director of the Beijing Financial Association; also Project Director of a key state research project during the period of the Eighth Five-year Plan, "Transforming Financial Mechanisms." His chief publications include: "Currency Banking," "Socialist Credit," "Industrial and Commercial Credit and Accounts," "Reform of the Financial System and Macroscopic Economic Management." He has also had more than 100 articles published in national periodicals and newspapers.]

### Invoke Social Security System, Reduce Tax Losses

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[Article by Bai Dongxiu (2672 0392 4423): "Plans To End Tax Revenue Losses"]

[Text] 1. Extent and Impact of Tax Revenue Losses in China

While tax revenue losses are a worldwide problem, the tax evasion, tax cheating and tax resistance that have been occurring in China in recent years are rare anywhere in the world in their severity. According to sample surveys by the agencies involved, a high 15 percent or so of enterprises owned by the whole people, which have the best record in tax payment, practice tax evasion. Tax evasion in the collective economy is at least twice as bad as that in the state economy. Between them, tax underpayment by these two economies amounts to 5 to 10 percent of all tax revenue payable to the government. Tax evasion is worst among individual households and in the private economy, having exceeded 90 percent in the past couple of years. Individual households and private enterprises routinely meet just 10 to 20 percent

of their tax obligations, 30 percent at the highest. Modest as they are, these tax compliance rates are achieved at a steep price—the blood, sweat, and tears of the tax personnel. Greedy and brutal by nature and encouraged by our excessively tolerant and accommodating attitudes toward tax evasion, some self-employed people frequently curse at, assault, and murder tax cadres. As for the personal income regulating tax, the tax base is tiny to begin with and the amount of personal income taxes that is actually paid is minuscule because of widespread tax evasion (intentional and otherwise). According to our calculations, each year tax payments fall short by 15 to 20 billion yuan due to tax evasion and tax resistance.

Tax revenue losses on this scale inevitably have a string of dire consequences for the state and the economy. To begin with, they directly eat into the government's revenue and are a major factor behind China's current fiscal problems. There are two basic explanations as to why China has been in such a severe fiscal plight in the last several years. One attributes it to the narrow profit margins of state enterprises, their failure to get a handle on cost control, and tax evasion. The other explanation is the low contribution rate to the treasury of the economy not owned by the whole people. The low rate of contribution has something to do with legal preferential treatment this economy enjoys, but is primarily the result of tax evasion. Since tax evasion is a problem in both explanations, its link to the fiscal problems of the government is obvious. Take 1990, for instance. Had there been no tax evasion or, to put it differently, had the government been able to collect all the taxes payable under current tax rates, the government would not have been stuck with a 13.9 billion yuan deficit (Ministry of Finance figure) and might actually have ended the year with a surplus under 10 billion yuan or, if we use the calculation method commonly used in the world (that is, not counting loans as income), we would at a minimum have trimmed the government deficit by one-third. (According to IMF computations, China had a 51.5 billion yuan deficit in 1990.) Then the treasury would not have found itself in such dire fiscal straits. Secondly, tax revenue losses lead to inequitable social income distribution. In modern society, taxation is an important tool of regulating income levels and achieving social justice. Extensive tax evasion, particularly by individuals, has now rendered this tool largely ineffectual. Tax evasion has a lot to do with the emergence in recent years of upstarts, people who make anywhere from 10,000 yuan to over 1 million yuan overnight. Clearly the extreme income disparities between these individuals and honest, hard-working people—ordinary workers, peasants, state personnel, and PLA men and officers—are grossly unfair. Thirdly, tax revenue losses have corrupted the social climate. Tax evasion is an inherently insidious social practice. Yet some comrades do not fully appreciate its harmful effects and are half-hearted in tackling the perpetrators. By tolerating their behavior, the comrades also abet it. Consequently, tax evasion has been worsening daily and honest people dare not take on the law-breakers. Some tax personnel have come to



regard tax evasion investigation with fear, enabling tax revenue losses to multiply over time. This, in turn, has served to encourage more fraudulent practices and bred a disdain for the law of the land. This has become a major and urgent problem in our economic work.

## 2. The "Three Reliances" as the Basis of Tax Management

How much tax revenue is collected is a function of the behavior of the tax administration and taxpayers. To put an end to current severe tax revenue losses in China, we must, in the final analysis, correct the behavior of the tax administration and taxpayers. Such collection involves a process. While this process may require voluntariness on the part of the main players (tax administration, taxpayers), the voluntariness does not come about spontaneously. Instead, it is essentially fostered by outside forces and restrained by interests. Accordingly we believe we must make an earnest effort to achieve the "three reliances," that is, relying on the masses, relying on society, and relying on the legal system, the very backbone of tax management, all the way from ideological understanding to practical action if we are to solve the serious problems in tax management today. Below is a discussion of the "three reliances" in light of the reality in China today.

1) Relying on the masses in a modern society taxation is every individual's concern; tax work is deeply mass-oriented. Historically our party has stressed the mass line. When it comes to tax work, which is of a strongly mass character, however, we have ironically failed to tackle the issue of relying on the masses in recent years. In tax work relying on the masses means, among other things, relying on the masses to pay taxes voluntarily. Since we have done a grossly inadequate job, voluntary tax compliance by taxpayers is dismal. In tax work relying on the masses also means relying on the masses to supervise the tax administration (tax personnel) and taxpayers. At present the masses have little sense of being tax watchdogs, even less so than in the 1950's in a sense. In the first seven years after the PRC was founded, we did a much better job collecting taxes from private industry and commerce and small peddlers than we are doing now partly because we made good use of the masses at a tax watchdog. What we should do now is to review the historical experiences properly, both domestic and foreign, and take effective measures to rely on the masses.

To rely on the masses, we must begin by stepping up publicity work and do more to foster a strong tax consciousness on the part of the citizens so that every individual would think of paying taxes as a civic obligation. Society must be taught to regard paying taxes in accordance with the law as an honor and tax evasion as a crime. For the moment the focus of our work on this front should be the elimination of tax illiteracy. There are many tax illiterates in our midst today, especially among the self-employed. They figure that they work their guts out for their money, so why should they let the tax bureau take away a chunk of their earnings? In

tax-paying consciousness these people are no match for crop-growing peasants. All peasants know that paying in-kind agricultural tax, which some people still call "imperial tax" out of habit, is right and proper, something that will never change in a million years. Moreover, they have a straightforward understanding of the need for this in-kind agricultural tax. For instance, they refer to all officials (bureaucrats and cadres), all soldiers (policemen), and all teachers as people who eat "imperial grain." In other words, they recognize that society needs these people. This shows that we indeed have an important job to do in publicizing taxation and educating the public about paying taxes. Only by educating the masses can we rely on the masses. All available tools and methods must be used to speed up this piece of work.

Secondly, we need to put together the necessary institutions and take the appropriate measures to encourage the masses to be a tax watchdog, including supervising the way tax personnel enforce the law impartially, reporting tax evasion, and taking the initiative to help tax personnel battle tax evasion. It should be said that the strengthening of publicity and education as described above is basic to mobilizing the masses to carry out tax supervision. Once the citizens develop a tax consciousness, they will conduct tax supervision of their own volition. But this is not enough. We also need to institute a reporting system and award system.

2) Rely on the legal system. One of the characteristics of taxation is that it is mandatory. Regularize the conduct of the tax administration and taxpayers with laws and institutions. Punish tax evaders, tax cheats, and others (both natural persons and legal persons) who resist paying taxes as the law requires. All of this is inherent in and necessary to tax management. We have numerous problems in this area.

The first problem has to do with understanding. When it comes to tax management in accordance with the law, there is a lot of confusion and misunderstanding. For instance, should the state economy be required to pay independent taxes? Can a state enterprise haggle over how much taxes it should pay? Does tax evasion by a state enterprise merely mean that it has failed to reconcile "public interests" with "self interests" or should such behavior be investigated and punished? Judging from tax collection and management in recent years, these questions are answered incorrectly more often than not. There is even more misunderstanding when it comes to the private economy and individual economy. Most strikingly there are many misgivings, even skepticism, about punishing tax evaders in accordance with the law. The result is that we are half-hearted in meting out punishments to people who resist paying taxes. Even worse, some locales have compromised and made concessions in an unprincipled way in the face of "strikes" by self-employed individuals incited by a handful of people trying to resist paying taxes. The basic problem is that in the eyes of some people, tax evasion by the self-employed belongs in the realm of "contradictions

among the people." All this misunderstanding has seriously undermined tax management in accordance with the law in China. We must discard the kind of special thinking formed in a special era in the past. We cannot engage in wild exaggeration as we did in the past and dismissed all tax evasion and cheating as class struggle (without, however, denying the fact that there does exist some element of the class struggle there). Nor should we think that dictatorship cannot be applied to any individual who cannot as yet tell the contradiction between ourselves and the enemy. The law-breaker among the people must be punished as provided by law, never mind whether or not he is regarded by the people as one of their own. There can be no ambiguity on this point.

Secondly, make an earnest effort to formulate tax laws and enforce them. Certainly we are not starting from ground zero in this respect since there already exists some laws and regulations relating to taxation, almost all of which have gone into effect. But in reality tax collection and management is still ridden with problems; there is considerable room for improvement. Problems in existing tax legislation can be summarized as follows: legislation is incomplete, punishments are too lenient, and enforcement is too lax. When we say "legislation is incomplete," we mean we still lack a host of important tax laws. Of those that are already on the books, they include provisions that have not been carefully thought out. "Punishments are too lenient" means that penalties for tax evasion in all the tax laws and regulations are too easy on the offenders without exception. Let us leave aside the many typical examples all around us. Let us just take a look at the annual tax revenue general inspection. Each year the report by the tax administration tells us the amount of taxes that has been lost due to tax evasion and the amount that goes into the government coffers. The most notable thing is that in every instance the latter amount is substantially smaller than the former. There is only one basic conclusion one can draw from this: on a macro level, China simply has no appropriate penalties for tax evasion. We should no longer continue to wink at and tolerate tax evaders (allowing them to take unfair advantage of the tax laws). In what ways is enforcement of tax laws "lax"? On the one hand, with the tax administration and tax personnel lacking the necessary authority and power, tax management is neither deep nor broad enough. In some areas tax personnel simply dare not take on the offenders head on. On the other hand, public security, procuratorial, and judicial organs in some places do not show enough support for tax work. When it comes to violations of the tax code, they tend to treat the law lightly, meting out light punishments when the offense in question is serious and turning a blind eye to minor infractions altogether. The backwardness in the making and enforcement of tax laws must be ended without delay. First of all, the formulation of tax laws and determination of tax rates should help promote economic development, the optimization of the economic structure, and the sound utilization of resources as well as ensure revenue for the treasury so that social public needs achieve a level of

satisfaction commensurate with the development of productive forces. Secondly, tax collection and management must abide by the ancient admonition: "If government is too lenient, the people will be tardy." Laws must be strictly enforced and tax evaders must be severely punished. For a tax evader, the risk of being caught and punished must far outweigh whatever he stands to gain by breaking the law. For instance, if a person has been found to have underpaid by 20 percent after a thorough investigation, he should be fined an amount equivalent to at least five times what he owes the government in taxes. The punishment for big-time tax evaders must be severe enough to cause their bankruptcy. In serious cases, a jail sentence of an appropriate duration may be imposed on the tax evader involved or his legal person representative. Individuals who dare resist paying taxes must be brought under the law.

3) Relying on society. "Society" in this context refers mainly to the array of social organizations involved in tax collection and management. Relying on society for tax management is similar to what we usually refer to as "comprehensive treatment," although the two are not exactly the same in nature. The key to relying on society for tax management is the formulation of a set of institutions, including one that would require all sectors and units involved to submit tax base data to the tax administration, another that would investigate taxpayers in active cooperation with the tax personnel, and yet another that would help and support tax agencies collect taxes and punish offenders in accordance with the law. Without these institutions, we would have difficulty ensuring tax revenue for the state. It must be acknowledged that in this area our institutions are far from adequate and we have done far less than what is required. After reviewing our own experience, therefore, we need to emulate some of the effective practices of other nations selectively and put together a system in China whereby society can be relied on for tax management.

A lot of work needs to be done and many systems need to be created before we can rely on society in tax management. Here let us cite a few examples for illustrative purposes to encourage thinking in all directions. Personal income tax (income tax levied on individuals in China is currently referred to as "personal income regulating tax") is a major tax. To collect it, we must first make out where the tax will come from and ascertain the size of the tax base. The personal income tax in China is a mess; nobody really knows what is going on. As long as "earnings" and "incomes" are not sorted out, the collection of income tax or income regulating tax is bound to be a most haphazard thing. Is personal income or personal earnings destined to be an unknown quantity? Certainly not. It can largely be determined by relying on society (through legislation, of course). We probably remember scandals reported in the foreign press about a certain president underpaying taxes and a certain senator losing an election or a certain minister losing a job for similar offenses. Without going into detail here about



their motives, we can be sure of one thing: their national tax agencies have a clear idea as to how much they earn in incomes. How do they get hold of such information? From society. The tax administration relies on a person's employer (a firm, organization, school, etc.) to provide it with information about his incomes, on banks and companies for information about his investment earnings (dividends, interest, bonuses), and on newspaper and publishing houses for information about his royalties and other earnings derived from his writings. Needless to say, it is legislation that makes it possible for the national tax administration to rely on the units involved. There is so much we can learn from foreign practices in this area. Backed by legislation, we too should enable the National Administration of Taxation to depend on all units and individuals that have anything to do with personal incomes to gain access to personal income data. For instance, it may be stipulated that failure to report to the National Administration of Taxation personal income data on individuals in its employ shall make a unit punishable under the law. Only by relying on all quarters in society in accordance with the law can we do a good job in tax collection and management and put an end to the extensive tax revenue losses occurring now.

### 3. Key Measures To Stem Tax Revenue Losses

Practical measures applied across the board are needed to achieve the "three reliances" and stem the tax revenue losses taking place right now, the result of underpayment, tax waivers, arbitrary tax cuts as well as tax evasion, tax cheating, and refusal to pay taxes. Concrete suggestions for some of the more vulnerable links in the chain are presented below:

1) Set up a national tax bureau and local tax bureaus. Create a tax police. All modern nations with a relatively sound and comprehensive tax system, particularly some large nations, usually adopt a separate tax system (also known as "grant-in-aid system" from the perspective of the fiscal system). The separate tax system has many advantages. One of the goals of tax reform in China is to move toward a separate tax system. To create such a system and ensure revenue for both the national coffers and local governments, we need to reorganize the existing patchwork of tax agencies into two major systems consisting of the state tax bureau and local tax bureaus respectively. Even with the existing fiscal system, the creation of a national tax bureau and local tax bureaus each collecting its own taxes will go a long way toward stopping tax revenue losses, preventing unjustified tax cuts and waivers, ensuring a steady flow of revenue for governments at all levels, particularly the central government, and resolving the fiscal problems plaguing us today. For this reason, a start must be made soon to prepare for the reorganization of tax agencies.

Not that tax agencies are unaware that the treasury is losing a huge amount of taxes through tax evasion, tax underpayment, and tax resistance. Yet tax personnel feel that they are not up to tackling these problems. In many places tax personnel are afraid to take up tax evasion

cases. The fact is that there have indeed been a few tragic cases in which tax personnel died a glorious death struggling with lawless people. We must waste no time in putting an end to this extremely abnormal situation. Of all the measures, we think the most important is the creation of a tax police. The tax police should be of a sufficient size (it may be made up in part of existing tax personnel, in part of soldiers and officers transferred from the PLA and the armed police forces, and in part of newly recruited and trained personnel) and a high quality and be armed and equipped as necessary so that they have the capacity to tackle any groups and individuals who show disdain for the tax code and act irresponsibly as they please. By wrestling with the law-breakers, the police will deter any potential imitators and promote compliance with tax laws as well as ensuring tax revenue for the government.

2) Introduce a unified receipt lottery system. The way small enterprises and individual households in industry and commerce are currently taxed is highly haphazard. The reason is that tax agencies have no reliable data on their volume of business and incomes. At present what the tax agencies do is to determine their tax liability based on their assets, scope of operations, and sales earnings. But in reality there is nothing to base it on. All the tax agencies could do is to negotiate with the enterprise or self-employed individual and arrive at a number as the amount of taxes payable by the latter. In such negotiations private individuals are bound to gain the upper hand. Besides, this practice simply creates too many loopholes waiting to be exploited. According to sample surveys, the ratio between the sales volume used in determining an enterprise's or self-employed individual's tax payment and the real sales volume usually ranges between 1:5 and 1:10. This is both the objective base for widespread tax evasion and a prerequisite for lax tax management and poor compliance with tax rules. To put an end to this situation, we propose that a uniform receipt system be introduced nationwide. This is how it would work: When a buying or selling transaction takes place, the seller, on his own accord, must issue a receipt to the buyer. No seller shall refuse to issue a receipt when a buyer demands one (except in transactions that do not meet the specifications or fall below the minimum value). Only receipts printed by the National Administration of Taxation can be used. Lucky draws using the receipts will be held to encourage (stimulate) consumers to demand receipts. The receipt is to serve as a basis for calculating taxes. The most basic difference between the new system and the existing receipt system is the former's incentive feature, which is essential to ensuring that the system will be successfully carried out, thereby preventing tax revenue losses, especially business tax losses. This is also one way in which we can rely on the masses for tax management as explained above. Just think, if people are willing to spend money on things like lottery tickets on the odd chance that they may win, why wouldn't they demand a receipt when they purchase a commodity or some labor service, which gives them a chance to win a prize without costing them anything? If

everybody asks for a receipt, the tax administration would inevitably have a solid grasp on the volume of business of an operator. That way tax revenue for the government would be ensured. This does not only make sense in theory, but its effectiveness has also been borne out in practice in Taiwan, which introduced a uniform receipt system in 1951. In 1950, the transaction tax yielded \$34.45 million [new Taiwan dollars] in taxes at 3 percent. In 1951, the same tax generated \$51.38 million dollars in revenue at 0.6 percent, a 49 percent increase. After factoring in the cut in tax rate, the transaction tax actually yielded 6.5 times more dollars in 1951 than a year ago. This fully demonstrates to us the effectiveness of the unified receipt system. The unified receipt system has been in effect in Taiwan for over 30 years now, benefiting the government coffers in no small measure. Therefore we should promptly introduce a receipt lottery system as a way of seizing the initiative in tax collection and management.

3) Introduce a social security number system. It was suggested above that a law should be passed to require all sectors and units to provide accurate personal income data to the tax administration. For this to become a fact, we need a standardized method that is applied nationwide. The traditional practice of reporting names to the authorities does not work. Name duplication alone presents enormous difficulties, not to mention the problem of using pseudonyms. One option that may be considered is the use of ID card numbers. However, the ID card covers too broad an area and the ID card number includes too many digits (14 at the moment), making it too unwieldy. Even more important, the use of a personal number should serve multiple purposes. It should help a resident fulfill his economic obligations as well as confer corresponding economic benefits on him, something the ID card number cannot accomplish. After weighing all the pros and cons, we believe we should take a leaf from the U.S. book. In the United States, everybody has a social security card issued by the Department of Health and Human Services, an agency of the U.S. Government. The card contains a nine-digit number and also states whether or not the cardholder is allowed to work. If he is allowed to work and has a job, the cardholder pays social security taxes based on that number. All his earnings during his period of employment are recorded under his social security number. If he becomes unemployed or after he retires, he can apply for unemployment benefits or pensions, again using that number. The social security system is linked to an individual's personal interests by its very nature. It is also regulated by law. Through the individual himself and his employer, the Social Security Administration has a fairly good grasp of a person's income. Moreover, when a person opens an account at a bank or purchases a certificate of deposit, he must give his social security number when he fills out the forms. So no matter where he opens a bank account in the country or how many bank accounts he opens at the same bank or different banks, all information on his incomes (including

interest) will be transmitted by the banks to the computer system at the Social Security Administration and be pooled under his social security number. That the Internal Revenue Service is able to keep track of the incomes of practically every individual is pivotal to the success of the country's personal income reporting system. As we see it, now is the time for China to adopt a social security system and create the conditions for the introduction of a social security number system. It would bring us closer to achieving our original goal—creating social security for workers—and end the personal income mess in the country which nobody so far has got a handle on, making it easier to stop tax revenue losses.

To turn such a system into reality, there is a lot of work we need to do. We need to set up a social security agency, to be called Ministry of Social Security perhaps, with branch offices all over the nation. A unified social security system has to be put together and all employed individuals except for peasants who work the land (these peasants may participate in the social security system voluntarily depending on the situation in the collective economy) are required to take part in the system. Each of them will be issued a social security card with a social security number unique to that individual. A law should be passed to require the employee as well as his unit to pay social security premiums in accordance with the law. All units that make payments to the individual directly, with such payments constituting his personal income, should without exception be instructed to provide accurate data to the Ministry of Social Security on such payments under the individual's social security number. A social security system, it must be noted, would not work without a computer system. Hence it is imperative that the State Administration of Taxation, the social security agencies, and banks be computerized and linked in a computer network. Today we are capable of doing that.

If we follow the "three reliances" and move on the several fronts described above, we think we will certainly be able to end the extensive tax revenue losses occurring now and raise tax collection and management in China to a new and higher level.

(Writer's work unit: Finance and Trade Economics Institute, Chinese Academy of Social Sciences)

## CONSTRUCTION

### Housing Industry Overview, Proposals for Development

93CE0275A Beijing ZHONGGUO JIANSHE BAO  
in Chinese 12 Dec 92 p 3

[Article by Zhou Gengzhi (0719 1626 1492) et al:  
"Exploring Several Policy Issues Relating to the Development of China's Real Estate Industry"]

[Text] The development of China's real estate industry is reaching a new peak today. This is a critical time. It is

essential that we review our past experiences, systematically study the characteristics of China's real estate industry, and explore policies to accelerate its development. Here, we want to make some tentative suggestions based on our own studies in recent years.

### **I. History and Characteristics of the Development of China's Real Estate Industry**

Even before liberation, China already had a fledgling real estate industry. Back then the overall standard of the industry was very low; the management scope was small. After liberation and for a good many years, we had a policy of uncompensated and permanent use of state-owned land and did not recognize housing as a commodity. All economic activities dealing with real estate as a commodity in effect came to a halt. Since the Third Plenary Session of the 11th Party Central Committee, the real estate industry has gradually recovered. This recovery process was marked by two important turning points: One, the 1984 government report put before the Sixth National People's Congress proposed launching a pilot project to commercialize housing in the cities and towns and to develop the real estate business; two, in 1988 the Seventh National People's Congress amended the Constitution of the CPC and made it clear that land-use rights could be legally transferred. These two pieces of documents were the legal guarantees that put the real estate industry onto the track of the commodity economy and were the most important premises that brought the development of the housing industry to a new peak. Within a short period of four to five years, more than 4,000 development companies have sprung up, completing more than 33 billion yuan's construction work a year; more than 1,500 real estate exchanges have opened, handling more than 7 billion yuan's real estate transactions. Nationwide, the real estate industry employs more than 2.4 million people.

Based on the above brief review, it is clear that China's real estate industry has the following characteristics:

1. China's real estate industry developed very rapidly at the initial stage. Because of the low original base, some regions' real estate industry grew at an astonishing rate. This is to be expected. Later on, after things settle down, the industry will enter a mature stage of coordinated and steady development.
2. The state owns all the land in the cities and towns in China; most of the urban real estate is owned by the government or by units in the ownership by the whole people. In a certain sense, the government is the biggest real estate owner, and the government plays a critical role in real estate development.
3. China's real estate industry is still at the recovery stage; it is relatively weak, and this is apparent in that the real estate market is still underdeveloped; the volume of real estate transactions is small; the legal system and the management system are inadequate, and the professional team is far from meeting the needs of development in terms of quantity and quality.

### **II. The Significance of the Development of the Real Estate Industry**

Real estate is a basic factor of production in any nation's economic development. The development of every industry has something to do with real estate. In other words, all industries have some real estate; they all participate in some form of real estate activities. Some comrades say that real estate is a basic industry critical to the development of the national economy and improvement of the living conditions. This is a correct statement. The real estate industry's importance can be summed into the following: (1) It provides an important material condition for the nation's economic development. (2) It can improve the housing and living conditions. (3) It can improve the investment environment and accelerate the pace of reform and opening up. (4) Comprehensive development can avoid the defects of decentralized constructions and facilitate urban planning. (5) It can open up important fund channels for urban construction. (6) It can give impetus to the development of related industries, such as construction, building materials, chemical industry, light industry, electrical appliances and other industries. (7) It facilitates the proper readjustment of the industrial structure. (8) It helps to deepen the reform of the housing system and readjust the consumption-mix. (9) It attracts foreign capital and accelerates China's economic construction. (10) It increases employment opportunities. These important functions are gradually becoming more apparent, and as the nation's economy and the industry further develop, real estate will play a even broader and more important role in China's economy.

### **III. The Goal in Developing the Real Estate Industry**

In the process of developing the socialist market economy, the goal should be to include the real estate industry in the market economic system, make it an important component of the market economy, and turn it into a mainstay industry in the nation's economy.

A mature real estate industry is marked by the following characteristics: There must be a real estate development system that complies with the laws of the market economy; there must be a sound legal system with its accompanying law enforcement organs; there must be an active real estate market; there must be stable real estate development work and steady exchange activities; there must be a team of specialists with high professional, technical, and management standards that are well adjusted to real estate development, including all types of real estate development, management, administration, and service enterprises and intermediaries.

### **IV. Important Policies for Developing the Real Estate Industry**

Drawing up the correct policies is the basic guarantee of the real estate industry's healthy development. For this reason, we suggest adopting the following policies at the present stage:

*One, we should put the real estate industry onto the market economy track.*

The policies of demanding compensation for use of state-owned land in the cities and towns and commercialization of housing being promoted in China today are the two mainstay policies in the development of the real estate industry. When people engage in real estate activities, they convert raw land into developed land and build houses and other structures to form real estate, and in this process, they increase the value of the land as well as its use-value. Because housing is a commodity closely tied to the land, its value includes land value and the value of the structure, and therefore this process is also one that increases the value and the use-value of real estate. House property and landed property are substantively independent but are also an inseparable whole. Only by combining the two and by simultaneously promoting policies that require payment of compensation for the use of land and treat housing as a commodity can we turn China's real estate industry from its product economy mode into a commodity economy mode.

*Two, we should make real estate the breakthrough point when readjusting the industrial structure.*

In June of this year, the CPC Central Committee and the State Council made a decision on accelerating the development of the tertiary industry. This is an important part of the document which guides the readjustment of the industrial structure. Real estate is an important part of the tertiary industry; it is an industry that sets precedence and lays the foundation for the others. It will spearhead the future development of the tertiary industry, since, through housing development and construction, we can complete the readjustment of the urban land structure, which is the basis of the readjustment of the urban industrial structure. Second, real estate development can accumulate funds for urban construction and development, accelerate the pace of urban construction, and provide the basic external conditions for economic development. Third, real estate accounts for a substantial share of the value of the tertiary industry and even the GNP, and every rising tertiary industry must first acquire and develop its own real estate and lay the foundation for the development of the tertiary industry as a whole. Without focus, there will be no policy. Choosing real estate as the breakthrough point in the readjustment of the industrial structure should be an important policy.

*Three, we should give more play to real estate's role in increasing fund availability in the urban areas.*

Looking at the experiences of other nations, real estate taxes have become the most important traditional source of tax revenues and source of funds used to finance the construction of public facilities for most city governments. In order to increase tax revenues from real estate and related areas, many countries have also added development fees, developmental impact charges, incremental benefit tax, special value-added tax, and public facility

charges on top of the conventional real estate taxes; they have become regular income for the city governments.

China's real estate industry's contribution to the government has been increasing steadily over the years. In the newly developed coastal cities, real estate generates more than one-quarter of some cities' financial revenues, and in a handful of cities, it accounts for more than one-half the revenues.

Over time, the macro structure of real estate may consist of landed property, house property, incremental stock of house and landed properties, and the existing stock of house and landed properties. After city land is developed into landed property, it can be sold or transferred for a one-time sale price or transfer fee. When a house is built on the land, it becomes house property which can be put into the market and can be sold again and again. If the term of sale is for 50 years, then within those 50 years, we can also collect a land-use fee and real estate transaction taxes, but these will not amount to much compared to the sale price. Therefore we should seize the opportunity and implement a system of payment of compensation for land-use and commercialization of housing and sell the newly developed land in a planned and systematic way. We should also pay attention to the circulation of the existing stock of real estate and the sale of the existing stock of land in the already-developed zones, so as to reap more profit and accelerate construction.

At the same time, we should promptly establish and perfect different real estate tax and fee collection systems and handle properly the allocation of real estate profits between the central and local financial departments, so that real estate can play a permanent role in increasing accumulation for the nation's economy.

*Four, we should put urban planning first and insist on comprehensive development.*

China's capital construction system has long adopted the method of making investment decisions and selecting construction sites on the basis of individual projects. There is no overall balance and comprehensive planning with respect to the neighborhood and in terms of the city's overall development. Very often, after a project is completed, because the auxiliary facilities have not been installed at the same time, it cannot go into production or operation, and during construction, land is filled in and dug up and filled in again, which is a very wasteful process. Thus, we must insist on unified urban planning and comprehensive development.

Real estate development and other construction projects should fit in with the overall pattern of urban planning and with the unified land-use plans. If we only look at the immediate or partial benefit of each project and proceed recklessly, we will ruin the overall strategy of urban planning, obstruct future urban development, and even bring huge losses and leave behind irreparable damages. Modern urban development is a complicated, systematic project built on the foundation of socialist greater production and greater cooperation. Each construction



project may occupy its own separate space, but all are linked together by the city's infrastructure, including electricity, heat, water, drainage, transportation and communications, post and telecommunications, waste treatment, environmental protection, and even various large public, educational, cultural, sports, and entertainment facilities. They permeate the entire system to give it vitality. For this reason, all urban constructions must comply with the general principle of comprehensive development and coordinated construction. In the construction process, we must "go underground before working aboveground"—we should lay down the underground network before starting surface constructions. In short, comprehensive development and coordinated construction are the reflection of the objective law of modern urban development and is a major overhaul of the old system of decentralized construction.

Today, comprehensive real estate development has created a situation where the development of new regions and the rebuilding of old cities are progressing side-by-side. It is anticipated that in the future, urban renewal will play an even bigger role.

*Five, we should encourage circulation and cultivate the market.*

The market is where most real estate activities take place. Without an active market, there cannot be a prosperous and well-developed real estate industry. Currently, China's real estate circulation and real estate market are at the budding stage, and what we must do in the future is to continuously increase the amount of commercially available real estate. Each year we must put more newly developed land, existing stock of land in developed areas, and newly created real estate into the housing market. Only with a large supply of commercial real estate is there basis for developing the circulation and commodity markets. Furthermore, in terms of policy, we must adopt measures that encourage circulation and promote market development, so that real estate can realize their value or even appreciate in value through circulation. We must not put up artificial barriers. In terms of management, we should mainly work on macro regulation and control to ensure that things are flexible but not chaotic, controlled but not rigid. As we encourage circulation and cultivate market development, we may run into all sorts of problems, and sometimes profits which should go to the government may fall into the hands of individual units or persons. But this is by no means unique to the real estate industry. In China, as we make the transition from the product economy to the commodity economy, to various degrees, many businesses and industries will experience loss of profit. This is a typical problem as we move forward, and we should not be alarmed, nor should we exaggerate the losses. To solve this problem, first, we must have a sound legal system, particularly with regard to taxation. Second, we must have a strong law-enforcement contingent. Achieving these two points would require the concerted effort of organizations at all levels in the real

estate business. As the legal system and the real estate team continue to develop, the problems can be solved step by step.

*Six, we should link the real estate industry and the financial industry together.*

Before we had a financial industry, in order to develop social production, we had to rely mainly on individual managers who had to go out to raise capital. It took a long time. Back then, society's expanded reproduction was a slow process. With the birth of the financial industry and its subsequent rapid development, and because of its effective work, we are able to absorb to the maximum extent all sorts of idle funds in society and focus their use on economic activities, and this has produced a new, unprecedented situation with regard to society's economic activities and expanded reproduction. Today, in a well-developed nation, if a manager has \$10,000 in fixed assets, he can use that as collateral, and through revolving loans and other methods, he can obtain \$80,000-100,000 in capital from the financial institutions, and as a result, business and expanded reproduction can develop rapidly.

As the financial industry develops, it has found an intimate partner in the real estate industry. This is because real estate development characteristically takes a long time and requires a large sum of capital. Without the vigorous support of the financial industry, it will be impossible for the real estate industry to undergo rapid development. Moreover, when the financial institutions lend out money, they are very selective about the choice of collateral. Since under most situations, real estate tends to preserve or even appreciate in value, it is the most stable of collaterals. This naturally makes real estate the best participant in the financial institutions' fund gathering activities. For the above reasons, there is often a close relationship between the development of financial industry and the real estate industry; they tend to complement and support each other.

China's financial industry and real estate industry are still in the developing stage. When it comes to raising capital, collateral loans, fund circulation, and promoting economic development, we lag far behind the developed nations. For example, even though many financial institutions are lending money to real estate development, the loans are small both in actual amount and percentage-wise, and there are all kinds of loan quotas and other forms of restrictions. As for real estate mortgage loans, we have only just begun experimenting with them, and most loans are available only to the units, and the loan terms are fairly short.

*Seven, we should bring in foreign capital actively but steadily to accelerate the development of the real estate industry.*

Facts in recent years prove that real estate has long been one of the main attractions bringing foreign investors to China. We suggest a policy of actively bringing in foreign capital and correctly guiding their investments. This

means, one, because real estate development must be coordinated with the development of the nation's economy, its development must be kept to the proper scale each year. Too much or too little real estate development can adversely affect the economy. Thus, after it has decided on the proper scope, each locality should set aside some real estate development to attract foreign capital. Two, we must correctly guide the foreign projects we bring in to make sure that they facilitate China's real estate and economic development, but we should also give the foreign investors a chance to make some money, but not excess profit. Thus, the types of projects brought in may be mostly high-standard, high-grade projects producing goods suitable for foreign sales. Generally, we should bring in projects with substantial high-tech content, projects which are difficult for us to develop on our own, and projects to redevelop the older city districts. Three, we can bring in foreign capital in the form of wholly foreign owned companies, joint ventures, and contractual joint ventures. It seems Sino-foreign joint ventures or contractual joint ventures are the best approach, because working with a Chinese partner who is familiar with local situations can make things easier and can better guarantee the foreign investors' investment return. Four, enterprises investing in China's real estate must comply with all regulations pertaining to foreigners investing or engaging in real estate business in China and are entitled to various preferential treatments. Lastly, foreign real estate companies engaging in real estate development in China are subject to review by the relevant management department before they can start doing business here. The current method is to register each project individually, and the enterprise must cease all activities after the project is completed.

#### **V. Important Measures for Developing the Real Estate Industry**

One, we need a sound legal system. All policies set by the state and the government must go through the legislative process to turn them into laws and rules and regulations, and they need this kind of legal protection before they can be put into effect. China's real estate legal system contains the "Real Estate Law" and "Housing Law," both must be ratified by the National People's Congress. In addition, there are 12 new rules and regulations, including the "Provision on Comprehensive Urban Real Estate Development," which must be approved and promulgated by the State Council, and 24 departmental rules and regulations, including the "Real Estate Enterprise Management Method," which must be promulgated by the departments in charge. Of the above mentioned, three rules and regulations and three detailed rules have been promulgated and put into effect. Efforts are being stepped up to draw up the other laws and rules and regulations.

Two, we need to strengthen management. Besides actively participating in and taking responsibility for the formulation of policies and laws and regulations, the government's administrative management should focus on macro regulations and control. First, it should put

house property and landed estate under unified management. This is because newly developed land only make up a small percentage of the cities' total area; most of the real estate transactions deal with existing real estate. Only by putting land and structure under uniform management can we reduce the number of intermediate links, eliminate conflicts, and improve efficiency. This is also an inevitable trend as China restructures and assigns new functions to its government organizations. Second, we should control the overall situation but decontrol management. The government is responsible for matters that affect the overall situation, such as determining the amount of land to be developed each year; making sure that constructions comply with the urban planning layout; setting necessary mandatory real estate prices, and implementing tax and real estate laws and rules and regulations. As for the other real estate transactions and activities permitted by law, they should be left to enterprises, institutions, and individuals in the market place. Lastly, we must pay special attention to land conservation. The government's macro regulation and control of land must make sure that through optimal allocation of land-use, especially in urban renewal projects, different types of land are put to their proper use to bring out their greatest benefits.

Three, we should develop a real estate team. Currently, China's real estate contingent still falls far short of the needs of development both in terms of quantity and quality. Many cities have only just begun to set up organizations and train the professional staff urgently needed to run the real estate industry. These include organizations and personnel that deal with real estate laws, real estate assessment, real estate property rights, real estate market transactions, and real estate property management. We should adopt three methods: (a) Offer real estate courses in colleges and vocational and technical schools to systematically train real estate professionals; (b) hold special classes to train a group of professionals and put them to work within a relatively short period of time; (c) provide on-the-job-training. In recent years, many foreign and Hong Kong and Macao specialists have given lectures in the mainland or helped compile text books and have accepted professional staff we sent abroad for training. We hope this kind of support and cooperation will continue.

Ultimately, real estate is the product of a commodity economy. We cannot imagine privatizing housing if the living standard is low, nor can we really have a housing market if enterprises are completely under the control of state plans. We should not curb market development at a time when supply and demand are more or less balanced, even less should we stop forging ahead at a time when a little change can go a long way. We must remain cool-headed, seize the moment, vigorously forge ahead, so that the real estate industry and the socialist commodity economy can propel each other forward, complement each other, and help each other develop in a healthy way.



## AGRICULTURE

### Tianjin Wheat, Corn Projects Show Increased Yield

93P30019A Tianjin TIANJIN RIBAO in Chinese  
24 Nov 92 p 1

[Summary] An expert organization appraised Tianjin's largest agricultural production S&T projects. These are two demonstration projects for increasing grain yield—one for the development of low to mid-yield wheat crops and one for low to mid-yield corn crops. The experts believe that the technology, which greatly increases corn and wheat yields in semi-arid regions, leads the country. These demonstration projects for increasing grain yield are the first of ten S&T projects by the municipal S&T task force. The projects are being implemented by Agriculture and Forestry Bureau offices and scientific research institutes working on agriculture and population. These projects were separately contracted for and stipulated in 1991 and were renewed for another year in 1992. Single-crop wheat and corn production under drought conditions also increased. These two projects were implemented with clear results: grain yield increased by 267 million kg, with a net worth of 150 million yuan.

### Rural Cooperative Shareholding System Example

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[CHINA'S RURAL ECONOMY] in Chinese  
No 12, 20 Dec 92 pp 36-38

[Article by Zhou Jianqiu (0719 1696 4428), Mi County Communist Party Planning Commission: "Cooperative Shareholding System an Important Way To Manifest and Develop Public Ownership System"]

[Text] Under the central government's guidance to reform and open to the outside, beginning in 1984, we in Mi County implemented a cooperative shareholding system by reforming former rural cooperative enterprises and vigorously developing peasant cooperative shareholding enterprises. More than eight years of practice fully proves that their vigorous promotion is not only an important breakthrough for developing rural enterprises, but it is also an important way to manifest and develop the public ownership system.

Mi County's cooperative shareholding system take two basic forms. The first is reforming the former rural collective enterprises into cooperative shareholding ones or newly formed ones; it is a form of public ownership uniting the social economy and the workers' collective economy. Among the 1,127 rural collective enterprises countywide, 569 of them, or 54 percent, participate. Together they absorb 178 million yuan of workers' collective funds. The working masters of the majority of these enterprises have a greater sense of responsibility, improving the economic returns of the enterprises and strengthening the public ownership economy.

Mi County's rural cooperative shareholding system is still exuberant and being perfected and normalized after several years of development. It has gone through various tests, high tides, low tides and new high tides.

### Incremental Assets of Collectives and Individuals

Mi county's cooperative shareholding system is based on an enterprise's original assets, plus funds of employees, external groups and other units. It is a combination of assets from various economic constituents, a style of incremental assets from "collectives and individuals." Specifically, "shares are divided by price determined through inventory and asset evaluation, in which the assets of workers, groups and collectives are entered, and profits are divided equally and cooperatively according to share." When making an inventory and evaluating the assets of an enterprise, rational prices are set in which nothing is overevaluated or omitted. An enterprise's unwanted materials and equipment is not entered into the evaluation. Appraised investments in fixed assets can be part of the shares but only for the actual, active debt, not false or inactive debt. In sum, according to fair and rational principles, the present net value of an enterprise's assets is converted into shares. This share capital is the original county or town collective's property. Among workers and the masses who have shares, employees come first and then the masses (including other units). After workers and the masses buy shares, the enterprise creates share certificates and issues share capital certificates to individuals. Equal and cooperative division of profits according to share is a basic policy of Mi county's shareholding system. The so-called equality is not only in terms of equally dividing profit according to share but also means equal decision-making authority on major issues. Practice fully proves that collective and individual shareholding is both widely adaptable and highly serviceable; original enterprises can reform and newborn enterprises can be created. Therefore, Mi county's cooperative shareholding system has both the enthusiasm of county and rural leaders as well as workers and the masses. The system has fully united and brought into play "both" enthusiasms, bringing prosperous development from few to many.

### Power Structure of Shareholding Masters in Their Own Homes

Any enterprise which implements a cooperative shareholding system must have the shareholders elect and establish a shareholders committee. This committee is the highest power structure of the enterprise. It has the power to appoint and dismiss leaders of the enterprise, issue enterprise contracts, resolve major enterprise issues, decide on profit allocation and use, and supervise and inspect the enterprise. Determination, revision and improvements to simple and clear rules and regulations of the shareholding committee must be passed and decided upon by shareholders. Mi county uses practical and flexible methods regarding whether major members of the shareholding committee also are the chief leaders of an enterprise. If the enterprise is small scale and lacks

talent, members of "both committees" can either hold both posts or not. In general, representatives of major county and rural shareholders are important committee members. Capable individual shareholders may be as well. In general, shareholder committees are composed of the enterprise as a unit, or it may be the village as a unit, where "one committee has many factories." Enterprises which change to cooperative shareholding systems make shareholders masters in their own homes. This is an important key to resolving the split between government and enterprise, divided "dual authority," and enlivening enterprises.

### *Considering Equity Planning as a Whole*

Even more important for Mi county than considering how to collect and use idle social and consumption funds in its cooperative shareholding system to develop commodity production is how to make the system arouse the enthusiasm of the broad masses of workers to run their enterprises well. There are four general types of share capital:

1) Invested share capital. There is internal, external, common and preferential invested share capital. Internal invested share capital cannot be withdrawn. It resides in the enterprise with workers long term. External invested share capital cannot be withdrawn. It does not mature annually or at fixed periods (set by the shareholder). If it is withdrawn prior to maturity, the share capital alone is withdrawn without interest. If ownership is transferred, certificates must be presented to the factory and procedures followed. General share capital (the majority) involves rights, responsibilities and risk. Preferential shares involve no rights, responsibilities or risk to the enterprise. Dividend yield is according to the economic situation of the enterprise and medium levels agreed to by both parties.

2) Accumulated share capital. Regarding accumulated added value of an enterprise's assets, some in the cooperative shareholding system consider it enterprise shares or do not clarify title. Practice proves that this muddled accounting, invisible egalitarianism and indiscriminate acts may affect the healthy development of the shareholding system and the enthusiasm of shareholders and external shareholders. Mi county uses "ready accounts." Each year when shares are honored, an enterprise's accumulated added value is entered alongside the shareholder's name according to share and becomes his property in order to "expand share accumulation." Many enterprises stipulate that shareholders have "three rights" regarding accumulated funds; namely, the right to ownership, continuation, and profit sharing. One item is not allowed, namely, shares can never be withdrawn; they exist with the enterprise. One item is rescindable, namely, if an individual is dismissed for poor performance or voluntarily leaves the firm, his right of ownership to accumulated funds is cancelled. The result of these measures both arouses the enthusiasm of shareholders and enhances the cohesiveness of an enterprise.

3) Seniority share capital. This is based on responsibility and technical skills. Beginning in the year the cooperative shareholding system was used, each year of work is recorded at a certain amount as a seniority share. In the case of Mi county, each worker is given a minimum of 50 to 100 yuan per year of seniority. In general, there are regular and assistant factory grades, mid-level cadres and three or four grades of workers 50 to 100 yuan apart. Seniority share capital considers continuous years of service. If one returns to the enterprise after leaving it, he begins all over again. Several years of practicing the seniority share system has solved many questions. For example, it solved the issue of how to have laborers get shares. It embodies distribution mainly according to labor. In practice, it naturally and continually readjusts distribution relationships between labor and capital and gradually expands the portion of distribution according to labor. Even more importantly, it is beneficial to stabilizing employee ranks and improving the overall quality of an enterprise.

4) Technical share capital. This is used only in connection with an enterprise's crucial technical and recruited technical job applicants. Both parties agree to how many shares each will get and then they are converted. Technical shares are beneficial to stabilizing the technical corps of an enterprise and can break the iron wages of recruited technical applicants, motivating their enthusiasm.

Technical and seniority shares are blank shares. Employees enjoy them only while employed; they are lost once one leaves the enterprise. Profits are distributed at year's end, minus post-tax profits, using all four share types.

### *Basic Policies Suited to Actual Needs*

Cooperative shareholding enterprises in Mi county have formulated some peculiar basic policies embodying the spirit of "three benefits" that are not only on paper and not only for superiors.

1. A basic profit distribution policy of "complete distribution without dissolving all." Some places over-regulate accumulated distribution portions, restricting them too low, or over-controlling the portion to be retained. We believe that doing so both violates the principle of shareholders as masters in their own homes as well as being unsuited to the actual circumstances of each enterprise. Therefore our basic thinking in studying policy for implementation by each enterprise is that whomever invests shall profit and be the owner. The principle we abide by is really allowing shareholders to be masters in their own home. In distributing post-tax profits of cooperative shareholding enterprises, we firmly uphold the policy of "complete distribution without dissolving all" and good handling of two relationships. The two relationships are the relationship between accumulation and distribution. A year in which profit is over-accumulated may affect the county and rural current accounts and shareholders' rising standard of living.

Conversely, it may affect an enterprise's reserve development strength. The basic thinking is to initially appropriately expand the portion of profit distributed and allow shareholders to draw benefit from and have greater enthusiasm in the cooperative shareholding system. The basic principle is that an enterprise has a great responsibility to develop. Those that have great debts can accumulate more; those in the opposite situation can distribute more. Mi county's suggested reference portion is to accumulate 40 percent and distribute 60 percent, although it ultimately is the shareholders of an enterprise who year after year determine the size of the portions. As a result, there are great differences in implementation. Two, good handling of the proportionate relationship between labor and capital. In developing a commodity economy, the outstanding contradiction in the real situation for most rural areas is a lack of capital, not labor. Thus, at present in distributing profits, capital exceeds labor in the labor to capital ratio, which is beneficial to motivating capital accumulation and greater enthusiasm to invest. As conditions develop, the portion distributed according to labor will expand gradually. So-called "complete distribution without dissolving all" means full distribution of annual post-tax profits to motivate shareholders and dispel their concerns. So-called "without dissolving all" means annually retaining accumulated profit to give an enterprise reserve development strength. Essentially, "complete distribution" is of accumulated funds, distributed according to share capital, keeping an enterprise's equity perimeters clean from start to finish. In practice, the result has been that this plays a great role in making shareholders enthusiastic to accumulate shares and put in new share capital.

2. A cooperative shareholding system with "two limitations." Systems elsewhere either have limits or not. Mi county enterprises which participate practice "two limitations" to meet most shareholders' psychological needs. Namely, there is a limit to losses on invested share capital. The greatest responsibility for loss is full repayment of invested share capital; losses beyond this portion are the responsibility of the issuer. There is no limit to profit distribution. Namely, all of an enterprise's share capital is distributed perennially. However much is earned is distributed, without restriction.

3. A policy to encourage guaranteed yields. According to the principles of the shareholding system, there should not be guaranteed yields on share capital. However, at

present there are two situations in rural enterprises participating in the system. One, much of the collective share capital is in the form of loans and its dividend yield is taken into production costs. Two, many of the masses face the word "fear" head on. Thus, in implementing the cooperative shareholding system in Mi county, we use a profit policy of guaranteed yield which plays a big part in motivating the masses to invest. In practice, this unwritten element has been adopted by enterprises.

4. A policy of firm adherence to public ownership of the cooperative shareholding system. In order to give predominance to the public ownership system, some places stipulate that an enterprise is not a collective unless total collective share capital exceeds 50 percent. Such a stipulation actually limits the development of collective enterprises and the commodity economy. Therefore, Mi county considers any county or rural shareholding enterprise as part of the county- or rural-run shareholding system.

5. A policy restricting share capital certificates from being circulated on the stock market. Some believe that enterprises lacking a stock market are not part of a shareholding system or else they are an irregular one. We believe that a shareholding system in which stocks are on the market is just to solve capital problems, while our system is a means to accumulate capital with the goals of resolving the position of workers as masters, motivate their enthusiasm, further enliven enterprises, and improve economic returns. Thus, enterprises stipulate that share capital certificates may not circulate on the stock market, lest workers lose their position as masters or their enthusiasm to work for the enterprise. Some say this stipulation violates the "self determination" principle. We feel that it is taken as a premise that workers voluntarily work for an enterprise, so the majority are satisfied and it is fully beneficial to consolidating enterprise development.

6. Openly promoting a policy to have party members and cadres take the lead in investing. We feel that doing so is neither to distribute some profits nor can it be regarded as an incorrect practice. Rather, it is a matter of charging at the head to influence the masses, an actual act of collective love. Therefore, the Mi county planning commission and county government stipulate that they are not allowed to invest in blank shares nor have special distribution. They energetically encourage party members and cadres to invest in shares of collective enterprises.

**Resurgence of Illegal Publication Industry**

93CM0050A Beijing WENYI BAO in Chinese  
17 Oct 92 p 7

[Article by staff reporter Wen Jinhai (3306 6855 3189):  
"The Evil Waves of Mad, Illegal Publications"]

**[Text] I. An Alarm About the Book Market**

Around November 1990, an edition of the *Best of Western Fujian Literature* suddenly appeared on book markets throughout China. Its content is obscene. It uses large amounts of sexually explicit and provocative language and photographs. Prints in the book show that this book is edited and published by the Editorial Department of *Western Fujian Literature* and printed by the Longyan Fuli Printing House. *Western Fujian Literature* originally was a literary and historical publication in the old revolutionary region of western Fujian Province. But it stopped publishing at the end of 1989. When this *Edition of the Best* was circulated to Longyan, people there immediately realized that it was a fake which stole the names of *Western Fujian Literature* and the Longyan Fuli Printing House.

Victims are indeed very angry, but innocent people do not fully understand that this is only one of numerous forms of illegal publications by the book market in China. Illegal publication activities have become a widespread social problem which has given many authors, publishing houses, and management departments big headaches.

Authoritative sources of the Press and Publication Administration told me that illegal publications refer to all books and audio and video products that are not published according to normal legal procedures. It is a different concept compared to reactionary and pornographic publications. Pornographic publications refer to illegal contents, and illegal publications refer to illegal means of publications. Illegal publications may include reactionary and pornographic books as well as books whose contents are not particularly improper.

Due to perhaps the influence of traditional culture and domestic political climate, we did not clearly affirm the commercial property of books until the mid-1980's. Only then did we begin to recognize that books are also commodities. Only then did the words of economic returns begin to appear slowly among the conversations of editorial personnel. But illegal publications appeared almost simultaneously when the people noticed the relation between books and money.

Earliest illegal publications were illegal because of their contents. In other words, they were pornography. These books were published by regular publishing houses and periodical publishers, and their means of publications were legitimate. *Dream of Roses* and *Gambler of Passions* which have been banned both belong to this category. In the past few years, many changes have occurred as to the content and form of illegal publications.

After China carried out two large-scale pornography clean-ups in the second half of 1989 and the winter of 1990, the number of pornographic books published by regular publishing houses has diminished. After these two concentrated actions and after seeing that many pornography producers and peddlers were put behind bars, those who dreamt about the fortune of pornography have indeed become less courageous. Producing and selling pornography is highly lucrative, but it is not funny when one is caught. So they are no longer quick to take the risk. However, since they are so anxious to get rich and the awesome profit of illegal publication is so irresistible, those who play with fire have racked their brains trying to find a way to wealth that is safer and has a greater insurance coefficient. Knowing that management departments keep their eyes only on the content of books and pay little attention to the form of publication, they focus all their talents on the means of publications.

So recently illegal publication activities have increased rapidly and are becoming worse and worse, going rampant and mad. But the means of illegal publication is substantially different from the past with fewer books of illegal contents and many more of illegal means. There are mainly two illegal means of publication. One is usurping the book and magazine code and trade name of publishing houses and periodical publishers. If a book does not have a book code and a name of a publishing house, readers can immediately detect its illegality, and industrial and commercial management departments will come to investigate and issue a ban. Then the book will not be sold, nor will the objective of making money be accomplished. Buying a book code from a publishing house will inevitably increase the cost of publication. Earlier, book dealers used to make up names of publishing houses, but since this practice could easily give themselves away, they changed their strategy and started usurping the names of publishing houses by transplanting the names and book codes of publishing houses from legitimate publications to illegal publications. By so doing they confuse the genuine with the imitation to deceive readers.

Usurping book codes can easily anger publishing houses and give themselves away. By contacting a publishing house and asking if it has published a certain book, one can immediately find out whether a book is illegal. In order to make their activities more secretive and raise the level of counter-reconnaissance, illegal book dealers picked some best-sellers from among regular publications and reprint them to produce imitations that are exactly the same as the originals. This makes reprinting and copying one of the illegal means of publication. After the TV drama "Besieged City" was aired, a fever of "Besieged City" appeared throughout the nation, and the long-languished novel suddenly emerged as a hot-seller. Some sensitive bookworms quickly targeted this book. Immediately, piracy occurred. During that period of time, the People's Literary Publishing House received many readers' complaint letters, blaming it for being so irresponsible, for having so many misprints and poor



quality, and for ruining the famous literary work. Some readers even mailed a copy of the book as proof. The People's Literary Publishing House has indeed published the book "Besieged City" and owns the copyright, but current books are really not the original. There are all together 10 different pirate versions of "Besieged City."

If we say that the fake is much different from the genuine, it is not true, because some fake ones are hard to tell from the real ones. Some lawless persons pirated "Jinpingmei Cihua," which was limited to internal distribution of the People's Literary Publishing House, and the pirated version is almost the same as the real one with regard to the appearance, paper, binding, and even the weight of the book. It is so hard to tell the fake from the genuine. The techniques of these criminals are becoming increasingly sophisticated.

## II. What Kind of People Are Illegal Book Dealers?

Sources familiar with illegal publications reveal that illegal publication activities have gradually developed into underground organizations. Such an organization has a clear division of work. Some people are in charge of getting the scripts, some printing, and some liaison and distribution. They may belong to the same gang. They also may not even know each other. Their job is done after they deliver the goods and get the money. They do not ask each other's name. There are many large book dealers controlling underground publishing and marketing activities across the nation. These dealers hold regular publishing meetings to exchange publishing information, divide territory, and resolve economic disputes. Large dealers reportedly have very good credit. Incidents where whole sale book buyers fail to settle accounts or make book payments are fairly rare. They do not want to do an one-shot deal. Instead, they want to keep this route open, so they have to build a good reputation. Large book dealers are all very rich. Some live in high-class hotels all year round and use advanced communications equipment to exercise remote control over underground publishing activities in all localities.

Then what kind of people actually engage in such illegal publishing activities? The general impression is that dealing in books is different from buying and selling general commodities, and that not every average Joe can do it. Whether or not a book will sell and whether or not the business can succeed depend first of all on the selection of subjects. Whether or not a book will be accepted by readers requires strong judgment and an accurate understanding of readers regarding their education background, interest, hobbies, and reading habits and an understanding of market trends. It is impossible to do this without a certain level of cultural accomplishment. So book dealers are generally of a certain level of cultural accomplishment, and they understand the developments of the publishing circles in China.

But from major illegal publication cases uncovered in recent years we discover that the biggest criminals of

illegal publication cases are people of very little education. Most of them have only elementary and middle school education, and many have prior criminal records and been in the prison before. These people dare to take risks and stick their necks out. They are not afraid to break the law and commit crime. Of course, they more or less understand how the publishing circles work. Some are workers at publishing houses, others have engaged in circulation or have relatives working in the press and publication department, as well as understanding indirectly how this industry works. Readers of illegal publications are mostly people at a lower cultural level. Those who engage in illegal activities understand the literary interests of lower-class readers, which enables them to cater to their tastes. Because the education level of China as a whole is on the lower side, books catering to the likes of these readers have great market potential. The volume of circulation of illegal publications is generally very large.

In the process of illegal publications, unlike editors of regular publishing houses, book dealers do not conduct serious market forecast. They rely more on their instinct when deciding whether a book will sell. When they discovered that *Besieged City* was selling like hot cakes, they decided to reprint it. When they found books on stocks selling fast, they decided to reprint books on stocks. They are quick to take actions and their production cycle is short, enabling illegal publications to catch a hot spot and sell in large quantities.

In addition, the contents of illegal publications consist mostly of pieces of information copied from different places. Such books cover many different subjects and contain a certain amount of information. It seems that readers can always find something new in them. This is the reason why they can attract readers. Very few illegal publications are real creations. This shows that illegal book dealers have low cultural levels and lack creativity themselves. They do not have the ability to judge whether or not a book, which has been created by someone but not published, will sell on the market. Because of this, they engage mostly in reprinting and copying existing books. The only difference is that they may add something to the cover and title of a book by making them fancier.

Of course, some of these book dealers also have a higher education level. They mainly engage in buying and selling of book codes. They do not dare to go too far in regard to the content of books and the form of publications. Intellectuals are more cowardly and unwilling to take risks by violating the law and committing crimes.

This also provides food for thought. Those who control the market of book consumption are all semi-illiterate. The cultural level of Chinese as a whole is relatively low. With regard to the type of books which the broad masses of readers living in the bottom of society like to read, our writers, scholars, and editors do not seem to have done any study, nor do they think it is worth doing. They feel that engaging in such studies is beneath their dignity,

degrading, and will lose their reputation as scholars. As a result, publishing houses complain that the quality of readers is low, and readers complain that publishing houses do not care about them and publish only books they do not like to read. On the book market, the demand and supply contradiction is very prominent, and the two sides are often pitted against each other. There is an invisible but enormous gap between authors and readers and between publishers and readers. It is this void that book dealers have filled. They publish books for the broad masses of readers, and the broad masses of readers give them a great fortune.

If our writers are willing to write more books suitable to the taste of the general public and if regular publishing houses are willing to publish more books which the general public want to buy, will there be fewer illegal publications? As a matter of fact, although illegal publications have a great market, many readers, including those with low cultural background, are not satisfied with them either. This does not mean that people resent them because they are illegal but because the internal qualities of these books such as the contents, printing, and binding of these books have really disappointed readers.

In the eyes of some people, book dealers seem to be indefinitely resourceful. Whenever they get hold of a book, it is guaranteed that it will market well and make money. What is the secret of book dealers? Over the years the Beijing Municipal Pornography Clean-up Office has handled many illegal publication cases and become quite familiar with what goes on behind the scenes regarding book dealers. An official here said: All illegal publications are issued in large numbers. There are two secrets: 1) When selecting the subject of publication, book dealers pander to the needs of readers and are, to a large extent, irresponsible to society. They do not care about the kind of impact a book will bring society after it is published. They publish only for the money. 2) In management, they evade taxes. Since they do not pay taxes, use the cheapest paper for printing, and do not consider the quality of books, the production cost of books is low, making it possible to sell such books by wholesale at a lower discount rate. General publishing houses give 30 percent discount for wholesale, but book dealers can give 50 percent discount for wholesale. Since the purchasing price is low, retail dealers can make greater profits, so they are willing to sell such books for wholesale. Book dealers and retail dealers both make money, but the tax income of the state suffers.

Illegal publications have become increasingly serious as each day goes by. By the end of 1991, the departments concerned studied the situation of illegal publications sold at individually run book stands in Beijing, Chengde, and Panjin. Within only one month, they managed to collect 94 illegal publications in the form of periodicals. Comrades of the National Pornography Clean-up Office told me that in the first six months of 1992 alone, they received more than 200 illegal publication cases referred to them by central-level publishing houses.

I plunged into the world of the book market because an unusual incident provided me with a golden opportunity. In April 1992, I unexpectedly received a letter of accusation from the editorial department of "Legends of Today and Yesterday." It was written by a reader named Chen Duan-ping [7115 4551 1627] of the Mabian County Hospital in Sichuan Province. He said that he read a long novel *Jieqing Meng* by Xue Mili [7185 4717 5461] that has the same content as *Chuang Heidao* which had been published in "Legends of Today and Yesterday." I wrote this reader, asking him to send me a copy of the book. Shortly after, this enthusiastic reader, whom I have never met, mailed a copy to me. I carefully compared it to the genuine version, and for a while I could not believe my own eyes. The text of *Jieqing Meng* is exactly the same as *Chuang Heidao* except for the title of the book, the name of the author, and the summary of contents which is rearranged slightly. *Chuang Heidao* is a novel I wrote. It was published in Hong Kong and on "Legends of Today and Yesterday." The Chunfeng Literary Publishing House in Shenyang also published an separate edition and owns the copyright of this book in China. A few months ago, the World Journal in the United States reprinted this book without authorization and caused some copyright dispute. I never thought that as soon as the dispute was resolved, this book was pirated again at home.

Based on the information printed on the copyright page, this book was published by China Social Publishing House and printed by Beijing No. 2207 Printing House. I asked two attorneys, Kang Jian [1660 0256] and Zhang Fan [1728 1581] of First Lawyers' Office of Beijing Municipality, to investigate. These two lawyers checked the records of the printing house and found out that this plant has never printed such a book. They also checked the book codes of the publishing house and found out that the publishing house has never published such a book. The book code of *Jieqing Meng* is copied from another book published by the same publishing house. I took the book to the Press and Publication Administration and the official there said: If the publishing house really did not publish this book, it will be very difficult to investigate. You just have to grin and bear it. It is very difficult to trace it through each link of distribution...

Indeed, it is extremely difficult to investigate illegal publication cases. It is even more difficult for individual authors to investigate. They often get half the result with twice the effort. This has virtually provided another advantage for the outlaws, making illegal publications increasingly serious. Currently illegal publication activities are all over the country. They are more rampant in Hebei, Shandong, Hubei, and Hunan provinces that are close to railways and where transportation is more developed.

Previously, pornography was rare in illegal publications, at most some subtle obscenity. Some publications appear to be blatant and shocking on the cover and title, but they are not that inappropriate if you read their contents carefully. However, pornographic products have recently

gradually increased. Officials in charge of pornography clean-up in Beijing informed me that they have discovered scores of pornographic publications and that the contents of many books are identical to those that were banned in the past. The only difference is that their covers and titles have been changed. People engaged in publications all know that not every one has access to hard-core pornography. Most people are unable to obtain such access. Few book dealers have the ability to do so. As a result, most of the recently emerged pornography books are rehashes. Few are new products. Some book dealers are eager for quick success and instant profits and are too lazy to hunt for new scripts. Making money is all they care about. Hence the resurgence and revival of banned books.

In the past, criminals were afraid to usurp the names of old publishing houses because readers of these publishing houses knew what kind of books these publishing houses would and would not publish. Since readers were clear about this, criminals could be easily exposed. Besides, old publishing houses have stronger backing and can cause trouble if they are really serious. Now criminals are increasingly becoming bolder. They dare to provoke those who are superior and in great power. Recently, state-level publishing houses such as the People's Literary Publishing House, the Sanlian Book Store, and the China Youth Publishing House have discovered that their books have been pirated and their names usurped. Criminals have become so blatant that, if they know they have strong backing, they can do anything they like.

The publishing circle is now really angry!

### III. Loopholes in the Management System

Illegal publication activities are becoming increasingly rampant. This is not only because the lawless have a whole bag of tricks but also because our system has loopholes that can be taken advantage of.

First, we do not have effective control. At present there are no press management organizations under the level of prefecture, municipality, and county. There are no personnel and funds, making it hard to carry out routine checks on illegal publication activities. Some publishing houses complain about the press and publication management departments, stating: "The Press and Publication Administration only knows to restrict us from publishing this or that. But when we are in trouble, they do not care. When we find out about illegal publications and report them to our superiors, all the Press and Publication Administration does is to make a note of it and refuses to investigate for us." The Press and Publication Administration, however, has its own problems. The National Pornography Clean-up Office was established in June 1989. It contains only a few people, who are responsible for studying the development trend of illegal publications, coordinating the work of pornography clean-up offices at all levels in the country, and appraising the publications of central-level publishing

houses. How could they have energy left to investigate cases? Judged from the national situation as a whole, the pornography clean-up force of Beijing Municipality may be the strongest. This office not only has personnel from the press and publication department but also people from public security, industrial, commercial, post, and telecommunications departments. The situation is not so desirable in other provinces and municipalities.

Second, legally China still does not have a publication law. Criminals engaged in illegal publications can be handled only with reference to the crime of speculation. There is great flexibility since it is only a reference. In addition, some localities use it as a reference, but others do not, making it impossible to severely punish the criminals. In the last few years, the National People's Congress, the Press and Publication Administration, the Ministry of Public Security, the Supreme People's Court, and the Supreme People's Procuratorate promulgated one after another several documents including the "Circular on Severely Punishing According to Law the Criminal Activities of Illegal Publications" and the "Circular on Dealing Severe Blows at Illegal Publication Crimes." However, these documents are scattered and not systematic. Especially some public security, procuratorial, and court systems do not understand many stipulations drawn up by the press and publication departments. Some do not even know the existence of certain documents, so it is naturally impossible for them to handle cases according to such documents. Therefore, there is insufficient legal basis for prosecuting illegal publication cases.

Third, the public, and especially some leading cadres, still do not fully understand the malpractice of illegal publications. They thought that as long as the publications are not reactionary or obscene, they are okay. They do not think that the way that books are published is of any significance. They do not understand that illegal publications have seriously infringed upon the interests of authors and publishing houses and disrupted normal publishing channels. Illegal publication cases are committed mostly by illegal book dealers. People have different understandings of book dealers also. Some people think that book dealers have contributed to revitalizing the publishing industry and that the existence of book dealers is not a negative thing. Like the individual economy, which is supplemental to the collective economy, individual book dealers also serve as a supplement to publishing houses. Some people hold a different view. They think that it is okay if book dealers only sell books but once they get involved in publishing, the phenomenon of illegal publications will become inevitable. Since management is behind, book dealers engaging in illegal publications can avoid being caught. This is the same as tacitly consenting to their engagement in illegal activities.

Fourth, too many printing businesses and poor management are the most important causes for the emergence of large numbers of illegal publications. The publication of books cannot be separated from printing, and there can

be no books without printing. That illegal publications spread unchecked is closely related to the lack of coordination in the management of the printing industry. A few years ago, printing enterprises were scarce and their equipment was backward. Since they could not satisfy the demand of market, engaging in printing became a hot business for quick profits. So like a gust of wind, all localities started to compete with each other in building printing houses. During a fever like this, nobody paid any attention to the demand of the market and everyone just followed everyone else in starting the printing business. As a result, the demand of printing houses was outstripped by the supply. Currently China has over 120,000 printing enterprises. Many of them not only are unable to make much money, but find it hard to just survive. According to state regulations, printing enterprises are not allowed to print books unless they have a permit to print books. Only 4,539 printing houses have such a permit. Those which do not have such a permit have to print illegal books if they want to survive, thus creating a precondition for the emergence of illegal publications. Currently, public security, industrial, commercial, cultural, press and publication, and light industrial departments all have control over printing enterprises. The excessive number of management departments makes it easy to create the phenomenon of a no-man's land. As the saying goes, too many cooks spoil the broth. As the deputy director of the Beijing Municipal Copyright Department, Li Hao [2621 3185] has, in the past few years, come into contact with a large number of illegal publication cases. He has a deep understanding of the complicated relationship between illegal publication and the printing industry. In March 1992 a family member of a certain teacher of a certain school in the Xiaogan area of Hubei Province wrote the Press and Publication Administration to accuse the school printing house of pirating four books: *Besieged City* of the People's Literary Publishing House, *Bathing* of the Sanlian Book Store, *Houhei Xue* of the Central Party School, and *Adapting to Changing Conditions* of the China International Broadcast Publishing House. After receiving this information, concerned publishing houses went to the Beijing Municipal Copyright Department to ask for help with investigation. Li Hao took the letters of request from these four publishing houses and went to Xiaogan. In Xiaogan Li Hao found out that this printing house was run by a school. It employs over 20 workers and owns relatively good equipment, but it does not have a permit to print books. The school originally started this plant because it spent thousands upon thousands of yuan every year for printing expenses such as report cards and other materials. School leaders thought that instead of letting other people earn this money, they would instead run a plant themselves and keep the money in the family. And, it could solve the employment problem for the dependants of the faculty. For these reasons, the school brought in the equipment, built the plant, and began to operate the plant. But they failed to carefully consider the following questions: Is it worth building a special plant just to print some flyers needed by the school? Is it legal to solicit business from outside?

Does the market need so many printing houses? After the plant was established, they discovered that it did not have as much business as had been predicted. According to the regulations, plants without the book publishing permit can only print loose-leafed materials. But the question is, where do they find so many loose-leafed materials to print? Thus, they were forced to solicit business from outside and to contract to print books. According to the regulations, a printing house must first check to see if the client has a composing order and a printing permit issued by a publishing house. This is to prevent the occurrence of illegal publications. Since it is very competitive and not easy to solicit the business of book printing, they could not but relax management and ignore whether their client has a composing order. They were willing to print as long as they were paid. It was upon the request of book dealers that they printed *Besieged City* and other books. After the books were printed, the plant was responsible for delivering them to Wuhan to some book dealer. The books were exchanged for money. They did not even know who the book dealer was, not to mention any composing order.

Li Hao once asked the plant director: "Don't you know this is illegal printing?"

The plant director said: "The printing house is a processing plant. People give us money and we do the work and collect some processing fees. This is labor income and very legitimate. We have a standard: We do not print reactionary and obscene materials."

In Xiaogan, Li Hao also found out that the Xiaogan area has over 370 printing houses and only four of them have the book printing permit, but over 300 were printing books. In addition, these printing houses were expanding their scale and updating their equipment continuously. Hubei Province does not have many publishing houses, and the printing of legitimate publications does not at all need so many printing houses. In order to survive, it seems inevitable for printing houses to contract for the printing of illegal publications.

When they get into trouble printing illegal publications, printing houses will blame book dealers, arguing: "Book dealers told us to do so. We have been taken and have become their scapegoat." It is true that printing houses do not make much money printing books for book dealers. Big bucks go to book dealers, but printing houses have to take the hit when something goes wrong. Nevertheless, book dealers have their own arguments. They say: "The arch criminal is printing houses. Many books are printed first by printing houses and then sent to us for wholesale."

Printing houses and book dealers—who is right and who is wrong? Or do they both need to be taught a lesson?

#### IV. The Ghost of Local Protectionism

China is a country of provincialism. Provincialism is an important component of Chinese culture. It is ingrained in the thinking of Chinese people. Like patriarchy, it



controls and restricts many people's behavior and sometimes becomes a criterion for judging the good and evil and for telling right from wrong. In current judicial work of China, local protectionism has become a serious obstacle in solving cases. Local protectionism is demonstrated not only in smuggling and economic cases but also clearly and fully in the investigation and prosecution of illegal publication cases.

Once established, a printing house has to pay a certain amount of profit and taxes to the local government. Because of this, the rise and fall of printing houses has a bearing on local economic interests and even on the stability of the local area. Investigating and punishing illegal publications can get one easily sucked into the whirlpool of local protectionism. The local management department of Xiaogan did solve the case where a certain school printing house pirated *Besieged City* and other books. The so-called punishment, however, was only an 1,000-yuan fine. When Li Hao was in Xiaogan, a local cultural department official showed him some documents explaining how this case was handled. But when Li Hao asked if the 1,000 fine had been paid, the cultural bureau official shook his head. Then it became clear to Li Hao that when they said that the case had been dealt with, it meant that they got a scap of paper to satisfy their superiors.

Relatively speaking, it is even more difficult to prosecute the case of the illegal publication of *The Best of Western Fujian Literature*.

The occurrence of the illegal pornographic publication, *The Best of Western Fujian Literature*, attracted great attention from the Fujian Provincial Party Committee and the Longyan Prefectural Party Committee. Chen Guangyi [7115 0342 3015], secretary of the provincial party committee, commented: "This matter must not be ignored. The relevant department of the provincial government should take up the matter and expose the details." Immediately, the provincial press and publication bureau issued a telegraph to notify the whole nation. At the same time, the Propaganda Department of the Longyan Prefectural Party Committee sent out Zhao Hui [6392 1920], deputy director of the prefectural cultural bureau, and other people to carry out investigations inside and outside the province. The findings of the investigations show that the *Best of Western Fujian Literature* was printed under an assumed name by the Youxian Printing House. Some 150,000 copies were printed and circulated throughout the nation, causing a very bad influence in society. The director of the plant also admitted that it was unauthorized printing and that they had employed deceiving and tax evasion measures such as not issuing the notification of production and not recording in books. The "Comments of Appraisal of the Hunan Provincial Press and Publication Bureau on the *Best of Western Fujian Literature* state: "The *Best of Western Fujian Literature* is an illegal publication usurping the name of *Western Fujian Literature* which was originally published by the Longyan Prefectural

Federation of Literary and Art Circles in Fujian Province and stopped publication in 1989. It belongs to the category of pornography."

Corporate representative of victimized units, Zhang Wei [1728 1919], chairman of the Longyan Prefectural Federation of Literary and Art Circles, and Zhang Quanjian [1728 3123 3068], former director of the Longyan City Fuli Printing House, once demanded that the printing unit which usurped their name make an announcement on a national newspaper and pay proper amounts of economic damages. On 8 July 1991 four people including a deputy secretary of the Youxian County Party Committee made a special trip to Longyan Prefecture to apologize and plead for mercy. Although they agreed to pay for proper amounts of economic damages, they asked that the newspaper announcement be made in a local newspaper in Fujian. Later they argued that the newspaper announcement might affect the reputation of late revolutionary Tan Zhenlin, who was a native of Youxian County. As a result, the problem remained unresolved.

Under this circumstance, the Longyan Prefectural Federation of Literary and Art Circle and the Longyan Fuli Printing House filed a suit with the Youxian County People's Court against the Youxian Printing House for violating their trade name, reputation, and intellectual property right. (The autograph of Xiao Ke [5135 0344], standing committee member of the Central Advisory Committee, for *Western Fujian Literature* was also usurped.) The Youxian People's Court received the case on 12 July 1991, but it waited over eight months before issuing a hearing notice. According to the 1987 document No.65 of the State Council, illegal printing of pornographic publications with 200,000 yuan of sales or more may be prosecuted as major speculation cases, and sentences may be calculated accordingly. In court the Youxian Printing House admitted that the *Best of Western Fujian Literature* was produced by its plant, that a total of 150,000 copies were printed, and that they sold for a total of 540,000 yuan. In fact, this plant also printed 100,000 copies of WEEKLY DIGEST in the name of BAODING DAILY and 100,000 copies of "the Ninety's Special Edition of Literary Collection" in the name of the City Economic Publishing House. The sales of these three illegal publications have exceeded 1.08 million yuan. Since 1988, this plant has also printed such books as *Sexual Behavior and Prevention and Treatment of Venereal Disease* and *Admirable Heroine* which totalled over a million copies. But the Youxian People's Court ruled that because *Western Fujian Literature* has stopped publication and no longer has the right to a trade name, the Youxian Printing House was not liable for the violation of its reputation. Now the case is already one and a half years old. The unit directly responsible for printing pornography has been commended as an advanced enterprise and remain at large. The victims of such violation have not received proper apology and compensation for their reputation and economic losses. The pernicious influence of pornographic publications

have not been eliminated yet in the nation. The public cannot but ask how can we attack illegal publication activities and safeguard the dignity of law if local protectionism is so strong.

Offenders have not been appropriately punished. Some cases are solved, but victims still do not have proper compensation. Some publishing houses feel that their interests are not protected. Feng Weimin [7458 0251 3046] of the chief editorial department of the People's Literary Publishing House said: "With regard to the case of pirating *Besieged City*, our publishing house spent much manpower and financial resource, but at the end we did not get proper compensation. Currently China's publication management system is fairly chaotic. Public security, procuratorial, and judicial organs, industrial and commercial departments, and press and publication department all exercise control in this area. If illegal publications belong to the category of speculation and profiteering, industrial and commercial departments will take care of them. If the amount of illicit money exceeds 200,000 yuan and violates criminal law, the cases will be transferred to public security, procuratorial, and judicial departments which will confiscate illegal income. The interests of authors and publishing houses are however not considered. The first violation of illegal publication is violating authors' right and copyright. The copyright law has been in effect for over one year, but many localities still have not implemented it.

THE SONS AND DAUGHTERS of CHINA is a publication run by the China Youth Publishing House on behalf of the All-China Youth Federation. Not long ago, there was an illegal publication case where lawless people usurped the name of THE SONS AND DAUGHTERS of CHINA. To investigate this case, the China Youth

Publishing House provided money, vehicles, and manpower. The offender of this case was arrested, but the victimized publishing house did not get any compensation. Han Hua [7281 5478] and Hu Xiaoqian [5170 2556 6197], deputy directors in charge of copyright in the Chief Editorial Department of the China Youth Publishing House, said: "To protect their reputation, publishing houses have to pay a great deal. But if they never get economic compensation after the cases are solved, their enthusiasm for investigating illegal publications is bound to be dampened."

Although it is very difficult to battle illegal publications, the departments concerned are determined and prepared to fight a protracted war. Some publishing houses are also prepared to spare no effort to fight to the end to protect their legal rights. In 1992, pornography clean-up offices throughout China all considered anti-illegal publication campaign their special task. Then as far as China's national conditions are concerned, what is the first issue we need to solve to make the anti-illegal publication campaign effective? Concerned personnel said: First, we should formulate as soon as possible the "law of publication" so that there is a law to follow when fighting illegal publications. Second, we should adopt effective measures. As soon as a case occurs, the departments concerned, including press and publication, public security, industrial, commercial, court, and procuratorial organs, should cooperate with each other to reduce middle links and the phenomenon of disputing over trifles and to increase work efficiency. To achieve this, there are some difficulties but it is not totally impossible either. Some provinces have adopted this measure in investigating and handling similar cases, with good results.

In the book market of China, a violent battle between justice and evil is going on. Those who play with fire will eventually go up in flames.

**Henan MD Commander on Modern Guerilla War**

93CM0163A Beijing ZHONGGUO MINBING  
[CHINESE MILITIA] in Chinese No 11, 9 Nov 92  
pp 18-19

[Article by Commander of Henan Provincial Military District Zhu Chao (2612 6389): "Carry Forward and Develop Mao Zedong's Thought on People's Guerilla Warfare"]

[Text] Mao Zedong's ideas on guerilla warfare, particularly the series of basic operational principles and policies he formulated, have embodied the basic laws of people's guerilla warfare, and won world recognition as a unique military strategy. In his book, *War, Strategy, Japan*, Japan's Tadamini Kuzumi pointed out: "The most brilliant of Mao Zedong's expositions is on guerilla warfare. It covers more areas than any other book on strategy. His abundant imagery is a rare thing. Mao Zedong's theories on guerilla warfare have more outstanding features than any other books on strategy in the 20th century." Kiyoshi Ikeno, a Japanese critic on military affairs also pointed out: "China's Mao Zedong was after all the first man who analyzed guerillas systematically, strategically and universally. He was the father of modern guerilla warfare and an archetypical practitioner." The West German magazine MILITARY AND ECONOMIC AFFAIRS said that "on many world issues, what impresses people is that Mao Zedong's strategy on guerilla warfare is gaining popularity worldwide" and that "Mao Zedong's strategy on guerilla warfare has won victories all over the world. This kind of strategy has effectively changed the political world outlook."

Keeping in touch with reality and focusing on characteristics and developments is the essence of Mao Zedong's military thinking and scientific approach in studying guerilla warfare. Things are always developing. There is nothing that never changes. Mao Zedong's thought on people's guerilla warfare remains our guidance on waging future guerilla warfare. We must keep in mind future conditions and developments in high technology, study new situations, tackle new issues, and find new strategies. We must study the enemy's new characteristics and work out new countermeasures in dealing with the enemy.

The local wars which broke out since 1970's have already shown some of their high technology characteristics. 1. Troops are highly capable. They are capable of not only fighting three-dimensional warfare, but also fighting independently. With their available equipment, they are capable of both attacking and defending while giving first place to attacking the enemy. 2. They have considerably high capability to launch strategic air raids and use parachute troopers on different scales. In the war against Iraq which lasted more than 40 days, the multinational troops headed by the United States sent out an average of more than 2,000 planes each day to launch massive air raids against Iraq. When the ground troops attacked, parachute troops were dropped behind enemy lines. 3. Their fire response is quick and immediate, and their strength in launching offensives strong. With the

coordination of ground, naval and air forces and the use of all types of guided missiles against short, medium and long-range targets they inflicted heavy casualties on the enemy in all areas. 4. They also adopted measures against the enemy's guerilla activities.

Therefore, in the course of carrying forward and applying Mao Zedong's thought on guerilla warfare to carry out future guerilla activities, we must pay attention to the enemy's operational characteristics, study new ways to fight and work out new countermeasures.

The 16-character formula devised by Mao Zedong: "The enemy advances, we treat; the enemy camps, we harass; the enemy tires, we attack; the enemy retreats, we pursue" is naturally still useful in the future. However, the material and technical conditions and the overall operational pattern in future guerilla warfare will be different from those in the past. Therefore, it is inappropriate to mechanically apply the 16-character formula. A fundamental concept in Mao Zedong's strategic and tactical principles of people's guerilla warfare is to keep the initiative and flexibility. This is of vital importance in waging a guerilla warfare. Facing high technology, it is extremely difficult to keep the initiative and maintain flexibility in waging guerilla warfare. The fact that initiative and flexibility are the life-line of the guerilla warfare, and that keeping them is no easy task shows their utmost importance. In waging guerilla warfare against high technology, we must regard the practice of keeping initiative and flexibility as our soul. Only when this soul enters the body, will it be possible to feel its presence. Initiative means freedom of action in conducting guerilla activities. Once we lose our initiative, we will fail or face the danger of being wiped out. Flexibility is a concrete expression of initiative. Being flexible means that we must not only resolutely, swiftly, secretly and timely disperse, concentrate or shift our guerilla forces, but also select the right targets, forms and times in striking the enemy.

How can we grasp the essence of Mao Zedong's thought on people's guerilla warfare and keep initiative and flexibility in carrying out guerilla activities? I believe that it is necessary to tackle the following issues:

1. Deal with the enemy's three-dimensional warfare. In fighting past wars, armed guerilla forces only needed to deal with the enemy's infantry, and their operation mainly covered the ground areas. However future guerilla forces need to deal with the enemy's modernized troops composed of various services and arms. Particularly the enemy will use his modern weapons and military equipment on the battlefield against guerilla activities, and fight a three-dimensional war. In the war, the enemy may possibly use biological, chemical and tactical nuclear weapons; and make waging guerilla warfare even more difficult, complicated and cruel. Therefore, armed guerilla forces must be capable of fighting under modern

conditions. For example, in order to "know," they must be equipped with modern means of communication, set up reliable intelligence and information networks, timely understand the changes in the enemy's situation and achieve the goals of knowing the enemy and knowing ourselves. In order to "move away," they must be equipped with modern means of transportation so that they may promptly arrive at their destination, suddenly appear, move away rapidly and disappear without leaving any trace. In order to "fight," they must be equipped with weapons to strike the enemy's modern equipment on the ground and in the air so as to win the battle and destroy the enemy. As for the means and measures to "defend" themselves, they must make full use of their existing defense works and local conditions and be good at exploiting the enemy's weaknesses so that they will be able to hide or retreat.

2. Energetically war against blockade and mopping-up operations. In future guerilla warfare, our armed guerilla forces will become a key target of the enemy forces. Blockade and mopping-up operations will become the enemy's principal measures. It can be predicted that the struggle against blockade and mopping-up operations in future guerilla warfare will be fierce and complicated. In face of such enemy operations, we tactically cannot concentrate on defense alone while defending ourselves to death and fighting the enemy recklessly. Nor can we retreat without putting up a fight, and passively deal with the enemy. We should flexibly use guerilla tactics and adopt different countermeasures and tactics to deal with the enemy according to the pattern and the method of his blockade operation as well as the size of his attacking forces. For example, we may adopt the tactics of breaking up the whole into parts and use small groups to maintain mobility in combat in dealing with the enemy's mopping-up operation. We may make good use of the favorable terrain to continuously intensify our blocking actions to deal with the enemy's mopping-up operation and make the enemy pay a high price for each step he advances. We may set up ambush rings, attack the enemy from the flank or behind, inflict heavy casualties on the enemy and force him to withdraw. We may also disperse and shift our own forces and move about to deal with the enemy so as to disperse, exhaust and wear down the enemy. We may set up a defense line ahead of time and tenaciously defend our important strongholds. We must work in concert to pin down the enemy and reduce his pressure on our guerilla forces in his mopping-up area. In short, in face of the enemy's blockade and mopping up operations, it is entirely possible for us to completely weaken the effects of the enemy's blockade and mopping-up operations so long as we mobilize all our forces, make use of all available conditions and adopt our tactics flexibly.

3. Actively war against the enemy's helicopters and tactical parachute troops in guerilla warfare. From the local wars in recent years, we can see that the enemy has used a large number of helicopters and tactical parachute troops against guerillas. Therefore, in future guerilla

operations, we must attach importance to the struggle against enemy helicopters and tactical parachute troops. I believe that first, we must "block." That is, we must use electro-magnetic waves to destroy the enemy's air command, use artificial smoke screens to blur the enemy's vision and use our own air force to intercept the enemy helicopters so that they cannot enter our airspace or accurately hit important targets. Second, we must "fight." That is, we must use our air units to intercept enemy helicopters group by group and use our infantry fire to lure the enemy into our ambush areas, and concentrate our fire power on them. Third, we must emphasize "defense." That is, we must familiarize ourselves with the terrain favorable to us. When the enemy's armed helicopters attack, we should promptly use fortifications, simple defense works, forests, river embankments, irrigational canals and ditches, and caves as shelters to avoid high casualties. When we find that the enemy may assault us with parachute troops, our guerilla units should seize the geographical positions favorable to us, and set up fake targets in the valleys between highlands or on small plots between hills to lure enemy helicopters to attack the fake targets. When the enemy helicopters land with troopers, we should use all available weapons to shoot at them from all directions, trying to hit the weak points of the helicopters, wipe out the enemy troops and cut their ties with the ground troops in the enemy mopping-up operation.

4. Pay attention to integrating military strikes with political and psychological work. Our political and psychological work is aimed at shaking the enemy's determination, creating confusion in executing his plans and discouraging him. We should use various forms, methods and ways to provoke and interfere with our enemies and make them feel tense, frightened, panic-stricken, worried, uncertain, war-weary, tired, uneasy, careless, not knowing what to do or irresolute and suffer other psychological reactions so that they would change offense into defense, blindly launch attacks, passively slow down in combat, or turn their weapons around and fight among themselves. To correctly integrate a military attack with political and psychological work can effectively quicken our pace in winning the war. First, we must strengthen our political and propaganda work; launch our political offensive; expose the enemy's act of aggression and crimes in hoodwinking the people; call on the enemy and puppet troops to lay down their arms, surrender themselves, join our side or desert. Second, we must arouse the masses to strengthen defense works and clear the fields so that the enemy will be deprived of food, shelter and transportation. Third, we must adopt various measures to carry out harassment activities, make things difficult and instill fear. Fourth, we must fully utilize the enemy soldiers who desert to our side to instigate rebellion and create turmoil within the enemy camp.

Mao Zedong's thought on guerilla warfare is an important component part of his thinking on people's war. It embodies the basic laws on people's guerilla warfare, and



remains a guidance to the future guerilla operations. Despite the fact that our future people's guerilla warfare will have many new features and that we need to adopt many new countermeasures in waging this type of warfare, the basic thinking and tactical principles for people's guerilla warfare will remain unchanged. We only need to judge the time, size up the situation and adapt ourselves to the changing background and conditions in high technology to determine when to "move about" and how to "hit" the enemy.

### GSD Official on Militia, Reserve Duty in Reform Areas

93CM0162A Beijing ZHONGGUO MINBING  
[CHINESE MILITIA] in Chinese No 11, 9 Nov 92 p 3

[Article by Zhou Chengke (0719 2052 4430), Deputy Director, General Staff Department: "An Investigation and Some Reflections on the Militia and Reserve Duty in Areas Where Reform and Opening to the Outside World Has Been Carried Out"]

[Text] Guangdong and Hainan are one comprehensive experimental area of the whole country for the implementation of reform and opening to the outside world. Is there still any place for militia and reserve duty where reform and opening up is being carried out? This is a question that has the attention of many people. Not long ago, I myself, together with comrades of the unit, conducted an investigation of the militia and reserve duty in the provinces of Guangdong and Hainan in areas where reform and opening up has been carried out, in the course of which we visited the seven cities of Guangzhou, Shantou, Foshan, Zhuhai, Shenzhen, Haikou, and Sanya, and also 15 of their subordinate counties (prefectures) and 26 grassroot units.

In our investigation we learned, and have been most gratified to observe, that reform and opening up has made it possible to accomplish great achievements in economic construction in the two provinces of Guangdong and Hainan, and that it has also instilled vigor and vitality in all work concerned with the militia and reserve duty. Local party committees and governments at all levels are upholding the principle of party control over the armed forces, and are including militia and reserve duty work in the overall plans of party committees and governments. They are, on the one hand, implementing the great political program of militia development, and, on the other hand, giving every attention to helping the militia control departments resolve actual problems and overcome specific difficulties. In Hainan Province, for instance, we saw that the basic armed detachments have not at all been withdrawn, but that the province assigns every year 60 to 80 cadres to supplement the cadre contingent that is charged with militia affairs. Following the development of commodity economy, many new matters and problems have come up in connection with militia work. According to investigations in the area of the Zhujiang Delta, out of all the members of the militia in the rural

areas, around 70 percent are employed in village and township enterprises, around 20 percent work or trade in other counties or provinces, and only around 10 percent cultivate the fields of their own village. In the cities, staff and workers in state-run enterprises are ageing and fewer young people are working in them, so that situations arise that there are "militia organizations without militia-soldiers." On the other hand, in the foreign-invested enterprises around 90 percent of the staff and workers are young people, but these units have no militia organizations. To cope with the above-stated new situation and new problems, militia control departments at all levels in the provinces of Guangdong and Hainan have in good time adjusted the militia organizations, recruiting militia mainly from village and township enterprises, while making militia recruitments from administrative villages subsidiary. Taking the counties of Shunde and Nanhai as example, the basic units of the militia recruited from village and township enterprises accounts for 60 to 80 percent, and in the cities it is mainly recruited from men in the large- and medium-sized state-run enterprises, while recruitment from those in the foreign-invested enterprises is subsidiary. This is a good solution for situations where there are "militia-soldiers without militia organization, and militia organizations without militia-soldiers." Guangdong is located next to Hong Kong and Macao; its coastline is over 4,000 km long. Hainan Province is in the South China Sea and has 270 large and small islands and reefs. Coastal defense for both of these provinces is therefore very complicated. The two provinces of Guangdong and Hainan are both adjacent to or surrounded by the ocean. The villages, townships, and state-run farms along the coast have all organized emergency detachments of the militia, which have been provided with good arms and equipment, and are thus capable of rapid response and immediate action at all times. In both these provinces, the greatest attention is given to building up basic militia contingents. The local party and government leadership base decisions on local conditions; they aim at further development and are willing to invest in such. Guangdong Province has already set up 92 training bases, and the Zhuhai City militia training center is in the process of being built up, the city's party committee having approved a one-time investment of almost 10 million yuan to build up this center into one that ranks at the top throughout the entire country. The storage facilities for militia equipment of the military district, of the county (prefecture) militia control departments, and of the basic armed detachments are also well set up, and most conform to the standards set by headquarters.

Revelation One: Reform has not only been a powerful motivational force in the development and liberation of productive forces, but has also provided a substantial material base for the effective conduct of militia and reserve duty. The office facilities, militia training bases, armament and equipment storage, and sentry posts of the militia control departments at all levels in the provinces of Guangdong and Hainan are meeting presently required scales and standards, and are benefited by the

abundant material foundation in these special districts. Practice has proven that if we would only fully utilize the favorable conditions for the buildup of militia provided by reform and opening up, and if we would only actively and of our own accord study the new circumstances, resolve all new problems, adapt to the new situation, it will certainly be possible to raise militia and reserve duty to a new and higher level of perfection.

**Revelation Two:** The militia control departments must adopt an overall point of view and consciously conform to and serve the overall situation of reform and construction. The crucial reason why it was possible for the militia control departments at all levels in the two provinces of Guangdong and Hainan to be vividly and dramatically successful in organizing militia and reserve duty under the conditions of reform and opening up, and in a situation in which the central concern is economic construction, is that they firmly adopted an overall point of view, that they ranged militia and reserve duty development as deserving a high position among tasks to be performed, and that they sought out the optimal bonding point of "subordinating" and "adapting." Their practice has again proven that the guiding ideas of the CPC Central Committee, of the State Council, and of the Central Military Commission for the buildup of a reserve force, namely of "subordinating one's actions to the overall situation of economic construction and of meeting the needs of national defense construction" have been absolutely correct. As long as we accurately understand and comprehensively implement these guiding ideas, it will be possible to continuously develop and improve the buildup of our reserve forces.

**Revelation Three:** People in areas that have carried out reform and opening up attach great importance to economic returns, but they attach even greater importance to social stability and national defense construction. The leadership of party and government, as well as the broad masses, now involved in the great tide of commodity economy, believe that only as long as there is a powerful national defense and social stability, there can be a good investment atmosphere, and there can be expectations of the visits of foreign businessmen, of uninterrupted commerce, and of the earning of limitless amounts of money. In the last few years, over 1,000 factories and enterprises in Guangdong Province newly set up militia organizations, and even such foreign-invested enterprises as the China Hotel in Guangzhou, equally famous among Chinese as among foreigners, have set up militia organizations. These facts tell us that the people living in areas that have carried out reform and opening up are the more eager to see national defense developed, the greater the prosperity they are enjoying. As long as the militia control departments at all levels actively and of own accord do an effective job and give effective advice, there can be no weakening in national defense development and in militia and reserve duty work; on the contrary, it will, rather, be enhanced.

**Revelation Four:** Militia can fulfill a very important function in speeding up reform, broadening opening up,

and accelerating economic construction. For several years, the militia of the two provinces of Guangdong and Hainan not only played an important role in the development and protection of the special zones, but also trained contingents, consolidated the organization, and raised its prestige. For instance, as soon as some villages within the Shenzhen Municipality, where public security had been rather amiss, organized emergency detachments of militia and instituted frequent patrols, public security became markedly better and earned the confidence and support of the masses; repeated praises even came from some of the foreign bosses.

### Importance, Development of Stealth Technology

93CM0160A Beijing XIANDAI BINGQI [MODERN WEAPONRY] in Chinese No 11, 8 Nov 92 pp 34-36

[Article by Cao Benyi (2580 2609 5030): "The Present State of Stealth Weaponry and Its Developmental Trend"]

[Excerpts] Resume: The present article sets forth the important function of stealth weaponry in modern warfare, as well as the domestic and foreign research and the developmental direction in this field. It also points out the crucial technological problems that have to be overcome in the research of stealth weaponry in view of China's national condition, and offers some suggestions in this respect. The purpose of the present article is to draw the attention of relevant specialists in China to the problems connected with stealth weaponry research.

The powerful capabilities and special characteristics of stealth weaponry consists in its ability to evade detection by sensing equipment on the ground, break through a great variety of defensive systems of the enemy, and penetrate deeply into enemy territory to attack all strategic objectives. As a consequence of the very rapid development of stealth technology, the survival potential and the rate at which stealth weapons will successfully break through enemy defenses in modern warfare have been very conspicuously enhanced. This has attracted utmost attention throughout the world. The present article will elaborate on the functions and the developmental trend of stealth weaponry under four aspects, to facilitate joint exploration of the subject.

#### 1. Important Functions of Stealth Weaponry in Modern Warfare

It is characteristic of modern warfare that it stakes everything on technology. Following the rapid development of radar, infrared, laser, and millimeter wave detector and guidance technologies, every kind of weaponry is almost immediately monitored by concentrated radar and photoelectric detectors. It is for this reason that every country has now been expending great energy on stealth weaponry research to enhance the operational effectiveness and survival potential of weaponry in modern warfare. Stealth technology is part of high technology; stealth weaponry is extremely important in

modern warfare. Several countries have by now developed various kinds of highly efficient stealth weaponry, such as stealth planes, stealth missiles, stealth naval vessels, stealth tanks, etc. Some have indeed already been transferred for use by the armed forces and successfully tried out in actual combat.

F-117A Stealth fighters, developed by the United States, were used in the armed invasion of Panama on 20 December 1989, when they successfully evaded the radar network of the Panamanian defensive forces and unloaded two almost 2-ton-heavy laser-guided bombs on the Rio Hato airfield, 90 km southwest of Panama City. This made it then very easy for the U.S. paratroopers to accomplish the great military achievement of occupying the Rio Hato airfield. When the Gulf war erupted on 17 January 1991, F-117A Stealth fighters were the main formation in the attacking air force, and they dropped the first bombs on Baghdad. These laser-guided bombs of the "Bao-shi-lu" [1405 4258 6424] III type, weighing one ton each, were dropped with unerring precision on the large communications building which housed the information services of the Iraqi armed forces, the F-117A's thus scoring another remarkable success in this air attack on an Iraqi strategic target. One F-117A Stealth fighter dropped two 2-ton laser-guided bombs right into the entrance to the Iraqi Scud missile storage hangar. Another F-117A Stealth fighter dropped one bomb into the air shaft of the Baghdad air defense headquarters. Yet another F-117A Stealth fighter made a very destructive attack against the Baghdad air force headquarters, bringing this huge building down in a big cloud of fire and smoke. In all these air attacks the F-117A fighters maintained a record of nil losses.

Used as a strategic and tactical attack weapon, the Stealth guided missile makes it impossible for the target to defend itself. During the Falkland war of 1982, the Argentines used the French-made Exocet guided missile to sink the British destroyer "Sheffield." In the Gulf war, the U.S. Navy used 100 highly effective Tomahawk cruise missiles with stealth characteristics to attack Iraqi strategic targets in the early morning of 17 January 1991, to start the Gulf war.

The great importance of stealth weaponry in modern warfare has gradually been realized by China's science circles and military experts. China has vast territories, vast territorial skies and waters, and long shorelines. To protect its territorial rights over its land, air, and sea against any future aggression, it is necessary for China to make every effort to develop stealth technology, to urgently develop stealth weaponry, and to do what is necessary to enable China's stealth technology to catch up with the world's most advanced level of such technology in a short time. [passage omitted]

## 2. The State of Domestic Developments and Critical Technological Problems To Be Resolved

In China, research on stealth weaponry was started in the 1980's, and great progress has been achieved, particularly in respect of theoretical research on active stealth defense against attacks by stealth aircraft and exterior stealth applications for entire aircraft and for components. Microwave tests, in dark rooms and in the open, have by now been completed in the case of a number of entire aircraft and a large number of components.

During the last few years, some units have started research on stealth materials. The research institute of the Beijing Iron and Steel Complex has developed a coating material of superfine metallic particles with radar wave absorption properties. Other relevant units have developed other coating and structural materials.

Since China was late in starting research on stealth weaponry, it has technically not yet nearly reached the level of such countries as the United States and the former Soviet Union. To offset its underdevelopment, to narrow the disparity with the rest of the world, and to be in control of the initiative in any future war, it is certainly necessary from now on to intensify research in stealth weaponry.

The following are some of the critical technical problems that will have to be resolved in China's research on stealth weaponry:

1) Expand the stealth waveband. Stealth technology is an important component of electronic warfare, and development of stealth technology must be conducted with full consideration for the peculiarities of modern warfare. Main emphasis of research of stealth weaponry in the various countries is presently placed on centrimetric wave, submillimeter wave, infrared, laser, and metric waveband expansion. The stealth waveband will therefore have to be expanded.

2) Meticulous design of the external contours of the stealth weaponry. It necessitates streamlining of the exterior of the stealth weaponry, eliminating angular reflections and mirror reflections, and the rational design of the exhaust and air intake system of the power unit, so as to offer the smallest possible surface area for radar reflection.

3) Use of the most modern types of radar wave absorption and permeable materials. Exterior coating of the stealth weaponry with wave absorptive material and the use in the structural components of wave absorptive and permeable materials can effectively reduce the surface area for radar reflection.

4) Selection of power units with limited heat radiation, combined with the cooling of the exhaust fumes will reduce infrared and heat radiation of the stealth weaponry and will make it infrared indiscernible.

5) Use of electronic countermeasures and increasing the outer impedance load of the stealth weaponry. Installing

on the stealth weaponry electronic interference mechanisms and various kinds of equipment that would signal out false targets.

6) Developing and installing accurate measuring devices. We should place main emphasis on setting up radar testing plants that are consonant with the environment of modern warfare, develop newly structured radar, taking as our principal research objective measurement of the reflectional surface area of the radar targets under wide-band conditions, and should thoroughly research the reaction in the targets of the radar waves.

### 3. Some Suggestions for China's Development of Stealth Weaponry

1) In the light of the world's modern testing technology, and giving overall consideration to China's financial, material, and geographical conditions, it is necessary for China to start research on stealth weaponry, and to develop as quickly as possible stealth weaponry that is attuned to China's national conditions and that is also up to worldwide advanced standards.

2) In the development of stealth weapons, China must firmly adhere to the principles of independence, initiative, complete self-reliance, and must in technological matters take the road of integrating carrying forward what has already been developed with activities of own independent creativity. At present, China must set up as quickly as possible various research projects, and those projects that have already been set up should be considered as models and research topics to be brought to fruition in the research units.

The radar-indiscernible structure of the stealth weaponry is an important research topic. It comprises primarily research on the external structural contours, structural research on the power units, on the power unit installations, on exhaust and air intake, structural research on the directional guidance installations, structural research on the installation platform for the armament system, structural research on the antenna system, etc. The rational structural composition of the stealth weapon is extremely important for a reduction of its radar-reflectional surface area and for an enhanced effectiveness of its radar-indiscernibility.

Radar-indiscernible material is one of the key items in stealth weapons; application of indiscernible material

and the outer stealth structural contours are of equal importance. Research abroad has already produced various kinds of highly effective radar-indiscernible coatings and structural materials. At present, as far as materials technology is concerned, mixed materials for increased wave absorption is an item of very good prospects. The appearance of such new technologies as sandwich-intertwined wave absorbing materials and self-programming materials have opened up new roads for the development and manufacture of radar-indiscernible materials. Superfine metal particles also have great potential as a radar-indiscernible coating material. It is necessary for China to develop through various technological methods a series of structural and coating materials with radar-indiscernible properties.

3) Costs of stealth weaponry must be reduced and production must be made economically more acceptable. Abroad, costs of developing various types of stealth weaponry have been excessively high. For instance, the cost of one single American B-2 Stealth bomber is in excess of \$500 million. China's economy is still very backward, and its financial and material resources are extremely limited, which makes it even more necessary to reduce the costs of developing stealth weaponry and making its production economically more acceptable.

4) In the light of China's backwardness in stealth technology, if we are to fill as quickly as possible the present stealth weapon gap that exists in China, we must make use of every opportunity that offers, import from abroad advanced technologies and equipment, establish as quickly as possible a research organization in the country, and thus speed up development of China's stealth technology.

5) At the same time as the development of stealth weaponry will go on, research must also be undertaken in anti-stealth technology. Stealth technology as well as anti-stealth technology are parts of the key projects in high technology that are presently being pursued by the various countries of the world. For the period from 1990 to 2000, the U.S. Defense Department is ranking stealth technology second among its 17 technology projects of highest importance. Among the 22 key technology projects for preferential development in 1990, three deal with anti-stealth technology. This makes it very obvious that in future warfare stealth technology as well as anti-stealth technology will both be indispensable.



### Articles Views Sense of Identity Problems

93CM0151A Taipei TZULI CHOUPAO  
[INDEPENDENCE POST WEEKLY] in Chinese  
No 188, 8 Jan 93 p 13

[Article by Hsu Lu (1776 3873): "The BBC's Taiwan Special Edition"]

[Text] On 27 December, the British Broadcasting Company's Asian service television station broadcast a program titled "Taiwan Special Edition." This special edition devoted a substantial amount of energy to an examination of relations between Taiwan and the mainland, as well as the national identification of the Taiwanese. It made a profound impression.

The most poignant parts of the entire special edition were two scenes: one was when Lin Huai-min [2621 2037 3046], the creator of *Cloud Gate Dance Collection* spoke about how, impelled by his education in China's culture, he had set foot on the soil of the China mainland out of a desire to seek his roots there only to realize after having gone there that that piece of land was in no way his home. The other shot was the BBC correspondent's asking a certain Mr. Zhang whether he felt he was a Chinese or Taiwanese. Head up and chin forward, he said without the slightest hesitation: "Naturally I am a Taiwanese."

Were such scenes to be construed as a symbol of political struggle, they would certainly be a controversial topic. Some people may say that "In addition to being a Taiwanese, one must be even more a Chinese," or "love Taiwan; love China more," fearing that the emphasis of the Taiwanese on being Taiwanese might hamper the great dream of unification.

Internationally, a split national identity such as is found in Taiwan is a rarity; consequently, it has aroused the curiosity of the international media. Nevertheless, every foreign correspondent who has come to Taiwan to explore this issue in the past has returned home even more puzzled. Possibly, this is because even though they did understand the difficulty and complexity of the two political choices of "unification" and "independence," they did not understand that people living on the soil of Taiwan had such a complex reaction and answer to the simple question, "Am I a Taiwanese?"

Many countries in East Europe and the former Soviet Union, such as the three small Baltic states and the central Asian republics, also experienced numerous internal controversies prior to their independence as to whether their future political and economic domain should be part of the USSR, or Europe and Asia. Nevertheless, on the issue of what nation, soil, and culture they identified with and esteemed, they had no doubts or differences. Even in pre-unification East and West Germany where the people formerly acknowledged themselves to be East Germans and West Germans, they now seek a unified Germany.

"I am a Taiwanese" has recently become an all too popular slogan, but politically this sentence is a somewhat "vulgar" slogan, but it represents a most sincere groping in the hearts of many people. This is also why we are moved when we see Lin Huai-min talk about his identification with Taiwan, and hear Taiwanese say, without the slightest hesitation, that they are Taiwanese.

### Changing Image of New KMT Alliance

93CM0151C Taipei TZULI WANPAO in Chinese  
28 Dec 92 p 2

[Article by Chang Mao-kuei (1728 5399 2710), Research Fellow, Central Research Academy: "The New Kuomintang Versus the Old Kuomintang"]

[Text] If anyone had asked three years ago the difference between the new Kuomintang line and the traditional Kuomintang, I would probably have told them that it was cleaner and less prone to financial shenanigans. At that time, the fight between the mainstream faction and the non-mainstream faction had not yet occurred. Except for its image and service record, the "newness" of the new Kuomintang line seemed indistinguishable from that of the traditional Kuomintang.

Now, three years later, if you ask me the same question, the answer is much more involved. The new KMT's former pure and fresh image has largely disappeared; at least it cannot pretend innocence about its relations with the Hualung Group. Where one might have said formerly that their hands were relatively clean, today the word "relatively" would be increasingly pertinent—a matter of whether the pot or the kettle is blackest. Furthermore, since the opening of the National Assembly in 1990, after the old delegates were forced to retire, the new Kuomintang line has clearly become a vehicle for expressing the political power of the mainlanders. They openly discuss provincial origins within the Kuomintang and hold instruction meetings throughout the province on "who sold out to the Taiwanese," and they blast the provincial origins mentality and the independent Taiwan (or Taiwan independence) proclivities of the Kuomintang central committee, but they themselves have become the first political group to have truly succeeded in mobilizing the "mainlander's awareness of danger." During the past three years, they have gone from advocating democracy within the party to support for Hao Po-ts'un, who has no democratic notions, and from disclosing cases of fraud to protecting the retired veterans organization and its vicious struggle with the Chi-ssu-hui [7162 1835 2585]. In short, it has gone from a departure from the old Kuomintang to an alliance with Huang Fu-hsing [7806 1788 5281], all in the twinkling of an eye. In the recent election, the new KMT triumphed over the old KMT, of course, and very many people have predicted that this outcome will create dissension in the KMT's Fourteenth Plenary Session, and even a split in the party. Just as expected, on the second day following the election, the new KMT held a press conference in which it called for "Sung Ch'u-yu

[1345 2806 3842] to step down." Superficially, they remain loyal to Li Teng-hui, but the discerning can see at once that calling for Sung Ch'u-yu to step down is tantamount to an annulment of Li Teng-hui's accomplishments in the party.

The new KMT line is now seeking to take in more legislators having a new image in order to break free of its accustomed pattern. An example is "clean official" Wang Chien-hsuan [3769 1696 3551]. It has also begun to style itself the "Republic of China faction," and the "New Minority." It has even gone so far as to retreat in order to advance, stating that it cannot support any mainlander other than Hao Po-ts'un for the premiership. After fiddling for a long time with what was a fresh and new image, it is still bogged down in the set pattern of provincial origins.

The haughtiness of the new KMT naturally stems from the corruption of the old KMT. The old KMT's inability to achieve a balance among the Taiwan faction, the capitalists, the mainlander bureaucrats, and the military has helped development of the new KMT. Nevertheless, an assessment from the Taiwan indigenization process to the process of building a democratic system shows that both the new KMT's manipulation of the provincial origins issue and ideology, and the old KMT's old practices will probably both be ultimately unable to avoid being rejected by the people.

### 1993 Economic Prospects Projected

93CE0267A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 1, 1993 pp 35-37

[Article by Wu Hui-lin (0702 1920 2651), a research fellow at the Chung-Hua Institute for Economic Research in Taiwan: "Taiwan's Economic Prospects for 1993"]

[Text] Taiwan's economy suffered a string of misfortunes beginning in 1992, with a sustained loss of interest in the stock market, consumer prices rising sharply for months in succession, a storm of basic wage increases, a high-level political struggle between the ruling and opposition parties, incidents over value added taxes on land, all sorts of disputes over reduced securities exchange taxes and refusal to pay taxes by produce merchants, and economic growth declining monthly up to the third quarter. Taiwan's 1992 real GNP growth rate also dropped from 6.9 percent in the first quarter to 6.28 percent for the second, sliding even further to 5.16 percent for the third, but luckily climbing back to 6.16 percent for the fourth. So the Executive Yuan's Statistics Office has estimated 1992's growth rate at 6.2 percent, which could be said to be higher than some expectations, but still almost a whole point lower than the 7 percent that had been projected at the end of 1991.

### Will 1992's Growth Continue?

The question that we are now interested in and concerned about is: Will the resurgence of late 1992 continue, so that Taiwan's economy can achieve another brilliant success in 1993?

Despite the difficulties involved in making economic projections, as well as the even harder problem of acquiring precise statistics, the trend certainly makes the prospect of continued economic growth feasible. We had best zero in first on national income, which can be categorized by private consumer spending, capital formation, government spending, and exports and imports. Taiwan's 1993 economic growth rate can be projected based on the increases in each of these categories.

### Will Private Consumption Increase or Decrease?

Private consumption in Taiwan is likely to continue to increase steadily in 1993. While the official projection is that this increase will slow, we certainly cannot overlook an exceptional factor for Taiwan, i.e., the election phenomenon.

Beginning with the most shocking legislative election battle at the end of 1992, each of the coming years is going to see elections on various levels. While vote-buying and election-bribery are part of Taiwan's election culture, certain ethics-driven figures have launched a campaign against election-bribery out of their distress over this, with participation and appeals by the highest executive officials, such as the premier and the president, so that there seems to be an unstoppable agitation for change. But no one has any confidence that a campaign against election-bribery by those at the top will be able to root out the real election-bribery at the bottom. And even if election-bribery can be genuinely restrained, "normal" election-campaign expense-payments will remain high. As such campaign wealth is like a shower of gold from the sky as far as the individual is concerned, those who acquire this so-called "rainbow wealth" are not likely to be stingy about spending it.

While Taiwan's capital supplies were growing steadily at the end of 1992, a capital shortage still occurred, which many guessed was caused by money flowing into the pockets of the electorate. But as this money was going to be spent to pay the expenses of the many approaching New Years festivities, Taiwan's private consumption should continue to increase in 1993. This, in addition to the further opening up to imports, should be quite enough to stimulate private consumption desire.

### Will Capital Formation Increase or Decrease?

Taiwan's 1993 capital formation can also be broken down into the three categories of public-enterprise investment, government investment, and private investment.

As an economic liberalization policy has been in effect for some years now, the policy of privatization of public

enterprises has long been set, the private opposition is strong, and attempts by those in charge of public enterprises to increase investment would be blocked in the Legislative Yuan in any event, any increased investment by public enterprises could only be very small.

As to government investment, referring to public construction, the representative "Six-Year National Development Plan" will enter its third year in 1993. While this plan's unprecedentedly huge cost has been criticized thoroughly by financial and economic specialists, some of its larger projects are already under construction. As the treasury has flashed the red light, the sale of government bonds to pay for this plan is expected to at most maintain its 1992 growth rate of almost 20 percent.

The change in private investment can be said to be the most crucial. While Taiwan's private investment has remained low-key since 1980, with years of negative growth, of which 1990 was one (a negative 8.06 percent), and returned to positive growth only in 1991, this was only 1.83 percent, and it was not until 1992 that it gained some momentum, returning to double-digit growth of 14.07 percent. In searching for the causes of Taiwan's dozen years of private investment slump, some say that after labor intensive industries experienced more than 3 decades of growth, they have gradually lost their comparative advantages in the last dozen years due to the rise in labor costs and environmental awareness. While Taiwan's almost \$90 billion of foreign exchange reserves shows an obvious abundance of capital, so that conditions are ripe for a takeover by capital- and technology-intensive industries, the limitations of greater risks, longer payback periods, and much instability in the overall investment climate are making investors hold back. Meanwhile, Mainland China has just opened up its markets, which is providing Taiwanese businessmen with a good opportunity to smoothly transfer their labor-intensive industries.

But these dozen years have similarly brought changes to Mainland China, which are confronting Taiwanese businessmen with the necessity of making new investment choices. So the lack of options has forced Taiwanese businessmen to start a structural adjustment in Taiwan, the beginnings of which can be seen in the distinctive types of manufacturers who have been applying for factory-construction permits most recently. If the recent legislative election battle results in keeping the privileged from maintaining their overwhelming majority, then this investment momentum will not stop. And in light of the start of construction on Taiwan Plastics' six light industries and peripheral industries, Taiwan's prospects for private investment will be more optimistic for 1993 than they were in 1992. This will be a crucial factor in Taiwan's 1993 economy.

#### **There Will Be a Very Small Increase in Government Spending**

As to government spending, since the central government's budget deficits have been worsening year after

year for quite a few years, leading statistics officials to point out that the drawing up of a budget has become very easy, with no additions except for adjustments for inflation of government employee and teachers' salaries, government consumption should be only slightly higher in 1993.

#### **Will Foreign Trade Increase or Decrease?**

Finally we come to foreign trade, which is the item about Taiwan that is most impossible to overlook. Many researchers emphasize that Taiwan's proud economic success is due largely to its open trade, with exports and imports both having long since come to account for more than 50 percent of its GNP, so that it is not overdoing it to call foreign trade Taiwan's "growth engine." The concerned government officials even claim that Taiwan's economy will prosper if its foreign trade thrives. Thus, a sustained growth of foreign trade will be crucial to Taiwan's future economic prospects.

As to its trading partners, the United States, Japan, and Mainland China are Taiwan's three key foreign trade nations.

The U.S. economic recession has lasted for some time now, having been a crucial factor in the recent presidential election. Clinton's election has everyone hoping that it will usher in a new age, with his financial and economic cabinet appointments showing generally a tougher stance than former presidents on government spending and foreign trade, i.e., a more pronounced tendency toward protectionism. Such a beginning is not favorable to Taiwanese exports. Furthermore, as Taiwan's imports from the United States will increase, it is easy to see the growth possibilities in light of the fact that the United States has already replaced Japan recently to occupy first place in Taiwan's imports. So there is not much possibility that U.S. markets will open further, while the U.S. is taking a harder line in its trade negotiations with other countries, calling particularly for its trading partners to apply the same labor conditions, environmental standards, and intellectual property rights protections. All of these factors are unfavorable to Taiwan's export competitiveness.

As Taiwan is actively pushing its application for membership in the GATT, by examining its control policies in agriculture and service industries to meet GATT requirements, with the direction naturally being toward more openness, import growth will be even greater. In another area, the increasingly clearer emergence of a regional economy is making it even more necessary for Taiwan to seek out various forms of regional cooperation and sign regional trade agreements, which will have a significant impact on its foreign trade.

As to the PRC, Taiwan-PRC trade relations are going to grow steadily, with the makeup of the just elected new legislature likely to have an insignificant impact on this, while the U.S. attitude toward the PRC will influence Taiwanese investment in and trade with Mainland China.

In short, Taiwan's foreign trade will generally continue to see imports growing faster than exports, which will gradually shrink its trade surplus, and lead to relatively less appreciation pressure on the Taiwan currency.

#### Specific Projections for 1993

A summary of all of these factors shows that while Taiwan's economy will continue to grow steadily in 1993, it will be impossible for it to return to its double-digit growth rate. Moderate growth is a fair prediction, which could be said to be more in line with the economic

condition of an advanced, mature nation anyhow. The Executive Yuan's Statistics Bureau predicts (see table) real GNP growth of 6.52 percent, GDP growth of 6.84 percent, and consumer price rises of 3.44 percent. The Executive Yuan's Economic Development Commission as always sets 7 percent economic growth and 3.5 percent price increases as its target values. But foreign projections are even more optimistic, with GDP growth predictions being 7.2 percent by the WEFA Group and 7.1 percent by Project Link. As to which predictions will turn out to be the most accurate, verification will naturally have to wait for economic performance.

Projections of Taiwan's 1993 Economic Growth Rates by Various Organizations

Item	1992	1993			
	Statistics Bureau	Statistics Bureau	EIU	Project Link	WEFA
GNP	6.11%	6.52%	7.0%		
GDP	6.71%	6.84%	6.9%	7.1%	7.2%
Private Consumption	8.75%	7.66%	7.5%	8.1%	8.2%
Government Consumption	4.30%	2.19%	6.0%	7.0%	7.0%
Fixed Investment	12.34%	12.11%	10.0%	11.0%	12.7%
Exports	6.39%	7.98%	9.0%	9.6%	6.6%
Imports	10.89%	9.30%	10.7%	12.4%	11.0%
Consumer Prices	4.50%	3.44%	5.0%		3.7%
Wholesale Prices	2.92%	1.00%	1.0%	0.1%	

Data Sources: The Executive Yuan Statistics Bureau, November 1992; EIU—The Economist Intelligence Unit, August 1992; Project Link—Project Link World Outlook, October 1992; The WEFA Group, October 1992



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